

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2011



Town Council Members

James M. Dugan
Emilie Swearingen
Chuck Keener

ADMINISTRATIVE OFFICERS and FINANCIAL STAFF

Dean Lambeth
Mayor

Arlen Copenhaver
Finance Officer

Nancy Avery
Town Clerk

TOWN OF KURE BEACH, NORTH CAROLINA

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kure Beach, North Carolina (the "Town") as of and for the year ended June 30, 2011, 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 Kure Beach, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit 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, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kure Beach, North Carolina as of June 30, 2011, and the respective changes in financial position and cash flows where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, on pages 2 through 9, and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on page 39, 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 the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Kure Beach, North Carolina. The combining and individual fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
October 3, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

As management of the Town of Kure Beach, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Kure Beach, North Carolina for the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

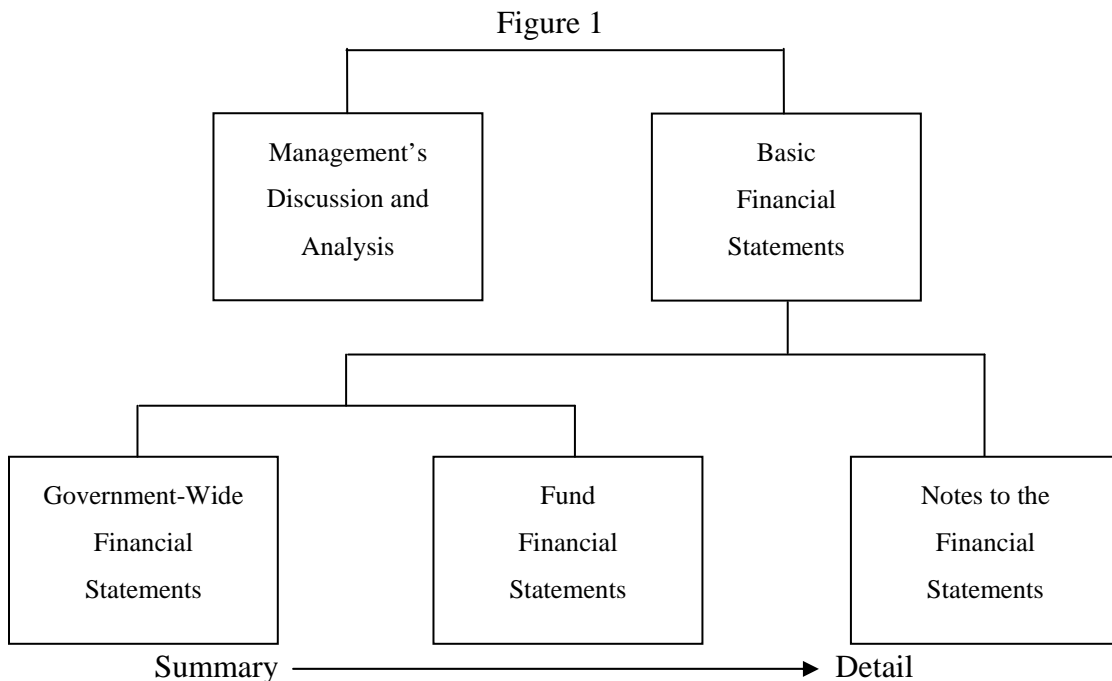
Financial Highlights

- The assets of the Town of Kure Beach, North Carolina exceeded its liabilities at the close of the fiscal year by \$10,291,766 (net assets).
- The government's total net assets increased by \$599,960.
- As of the close of the current fiscal year, the Town of Kure Beach, North Carolina's total governmental funds reported an ending fund balance of \$1,618,060. Approximately 70% of this total amount, or \$1,125,817, is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,207,039, or 38% of total General Fund expenditures for the fiscal year.
- The Town transferred \$794,533 to the Capital Project Fund to close various projects that were underfunded in prior years.

Overview of the Financial Statements

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

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-Wide Financial Statements. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 9) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Kure Beach.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Kure Beach, North Carolina, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Kure Beach, North Carolina can be divided into two categories: governmental funds and proprietary funds.

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

Proprietary Fund - The Town of Kure Beach, North Carolina has one kind of proprietary fund.

Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Kure Beach, North Carolina uses an enterprise fund to account for its water and sewer fund activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow exhibit 9 of the audit report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Kure Beach, North Carolina's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis
Town of Kure Beach, North Carolina's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Assets:						
Current and other assets	\$ 1,746,550	\$ 1,834,993	\$ 1,108,044	\$ 936,552	\$ 2,854,594	\$ 2,771,545
Capital assets	<u>5,014,237</u>	<u>4,858,456</u>	<u>5,972,864</u>	<u>6,033,123</u>	<u>10,987,101</u>	<u>10,891,579</u>
Total assets	<u>6,760,787</u>	<u>6,693,449</u>	<u>7,080,908</u>	<u>6,969,675</u>	<u>13,841,695</u>	<u>13,663,124</u>
Liabilities:						
Long-term liabilities	2,221,631	2,385,170	1,197,344	1,182,411	3,418,975	3,567,581
Other liabilities	<u>99,218</u>	<u>484,032</u>	<u>31,736</u>	<u>87,555</u>	<u>130,954</u>	<u>571,587</u>
Total liabilities	<u>2,320,849</u>	<u>2,869,202</u>	<u>1,229,080</u>	<u>1,269,966</u>	<u>3,549,929</u>	<u>4,139,168</u>
Net Assets:						
Invested in capital assets, net of related debt	2,961,626	2,642,363	4,835,274	4,880,098	7,796,900	7,522,461
Restricted	492,243	172,959	-	-	492,243	172,959
Unrestricted	<u>986,069</u>	<u>1,008,925</u>	<u>1,016,554</u>	<u>819,611</u>	<u>2,002,623</u>	<u>1,828,536</u>
Total net assets	<u>\$ 4,439,938</u>	<u>\$ 3,824,247</u>	<u>\$ 5,851,828</u>	<u>\$ 5,699,709</u>	<u>\$ 10,291,766</u>	<u>\$ 9,523,956</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 Kure Beach, North Carolina exceeded liabilities by \$10,291,766 as of June 30, 2011. The Town's net assets for governmental activities and business-type activities were \$4,439,938 and \$5,851,828, respectively for the fiscal year ended June 30, 2011. However, the largest portion, \$7,796,900, reflects the Town'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. The Town of Kure Beach, North Carolina uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Kure Beach, North Carolina'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 Kure Beach, North Carolina's net assets of \$492,243 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,002,623 is unrestricted.

Several particular aspects of the Town's financial operations that positively influenced the total governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.51%.
- Increased reimbursement from the New Hanover County Tourism Development Authority of approximately \$191,000 for tourism-related activities.

Town of Kure Beach, North Carolina's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 605,097	\$ 665,508	\$ 1,546,817	\$ 1,414,090	\$ 2,151,914	\$ 2,079,598
Operating grants and contributions	328,056	141,619	-	-	328,056	141,619
Capital grants and contributions	139,083	1,214,479	44,270	272,706	183,353	1,487,185
General revenues:						
Property taxes	1,606,992	1,594,288	-	-	1,606,992	1,594,288
Other taxes	434,860	666,971	-	-	434,860	666,971
Grants and contributions not restricted to specific programs	236,365	-	-	-	236,365	-
Other	3,786	5,498	655	1,044	4,441	6,542
Total revenues	<u>3,354,239</u>	<u>4,288,363</u>	<u>1,591,742</u>	<u>1,687,840</u>	<u>4,945,981</u>	<u>5,976,203</u>
Expenses:						
General government	324,532	448,971	-	-	324,532	448,971
Public safety	1,441,195	1,409,871	-	-	1,441,195	1,409,871
Highways/streets	78,489	1,373	-	-	78,489	1,373
Environmental Protection	912,147	875,990	-	-	912,147	875,990
Economic development	-	148,354	-	-	-	148,354
Cultural and recreation	-	45,072	-	-	-	45,072
Interest on long-term debt	92,656	122,652	-	-	92,656	122,652
Water and sewer	-	-	1,439,623	1,388,882	1,439,623	1,388,882
Other	57,379	-	-	-	57,379	-
Total expenses	<u>2,906,398</u>	<u>3,052,283</u>	<u>1,439,623</u>	<u>1,388,882</u>	<u>4,346,021</u>	<u>4,441,165</u>
Increase in net assets	447,841	1,236,080	152,119	298,958	599,960	1,535,038
Net assets, July 1,	<u>3,992,097</u>	<u>2,588,167</u>	<u>5,699,709</u>	<u>5,400,751</u>	<u>9,691,806</u>	<u>7,988,918</u>
Net assets, June 30,	<u>\$ 4,439,938</u>	<u>\$ 3,824,247</u>	<u>\$ 5,851,828</u>	<u>\$ 5,699,709</u>	<u>\$ 10,291,766</u>	<u>\$ 9,523,956</u>

Governmental Activities - Governmental activities increased the Town's net assets by \$447,841. The key elements of this increase are as follows:

- Tourism to the Town has continued to increase.
- Grant revenues in the Parks and Recreation area were used to construct capital assets.
- Tax revenues remained steady.
- Increased reimbursement for tourism-related activities from the New Hanover County Tourism Development Authority.

Business-Type Activities - Business-type activities of the Town reported \$5,851,828 in net assets, an increase of \$152,119. Key elements of this increase are as follows:

- A one-time water connection fee of approximately \$184,000 for the Fort Fisher Recreational Area.

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town of Kure Beach, North Carolina'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 Kure Beach, North Carolina's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Kure Beach, North Carolina. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,207,039, while the total fund balance reached \$1,699,282. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 38% of total General Fund expenditures, while total fund balance is 53% of total General Fund expenditures.

At June 30, 2011, the governmental funds of the Town of Kure Beach, North Carolina reported a fund balance of \$1,618,060.

General Fund Budgetary Highlights - During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

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

Proprietary Fund - The Town's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,016,554. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town of Kure Beach, North Carolina's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$10,987,101 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals, other than vehicles):

- Vehicle replacements, water and sewer improvements and park additions.

Town of Kure Beach, North Carolina's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
	2011	2010	2011	2010	2011	2010
Land	\$ 3,804,111	\$ 3,804,111	\$ 20,697	\$ 20,697	\$ 3,824,808	\$ 3,824,808
Building	50,006	73,237	119,269	123,545	169,275	196,782
Equipment and vehicles	339,272	386,983	76,258	70,506	415,530	457,489
Improvements other than buildings	486,563	504,490	-	-	486,563	504,490
Plant and Distribution Systems	-	-	5,756,640	5,818,375	5,756,640	5,818,375
Infrastructure	235,588	89,635	-	-	235,588	89,635
Construction in progress	98,697	-	-	-	98,697	-
Total	<u>\$ 5,014,237</u>	<u>\$ 4,858,456</u>	<u>\$ 5,972,864</u>	<u>\$ 6,033,123</u>	<u>\$ 10,987,101</u>	<u>\$ 10,891,579</u>

Additional information on the Town's capital assets can be found in the notes to the basic financial statements.

Long-Term Debt - As of June 30, 2011, the Town of Kure Beach, North Carolina had total debt outstanding of \$3,418,975. Installment debt for governmental type activities and business-type activities were \$2,052,611 and \$1,137,590, respectively.

Additional information regarding the Town of Kure Beach, North Carolina's long-term debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Tourism to the Town has continued to increase.
- The Town approved a \$3,269,698 general fund budget for fiscal year 2011-2012. This budget represents a 3.3% increase from the fiscal year 2010-2011 amended budget and includes an increase in the ad valorem tax rate of \$0.0275 per \$100 of valuation. This rate increase is the first in over a decade.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, 117 Settlers Lane, Kure Beach, NC 28449.

BASIC FINANCIAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Assets
June 30, 2011

Exhibit 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 983,339	\$ 286,817	\$ 1,270,156
Investments	336,662	668,710	1,005,372
Restricted cash	160,255	-	160,255
Receivables, net	215,170	203,641	418,811
Internal balances	51,124	(51,124)	-
Total current assets	<u>1,746,550</u>	<u>1,108,044</u>	<u>2,854,594</u>
Non-current assets:			
Land, non-depreciable improvements, and construction in progress	3,902,808	20,697	3,923,505
Other capital assets, net of depreciation	1,111,429	5,952,167	7,063,596
Total capital assets	<u>5,014,237</u>	<u>5,972,864</u>	<u>10,987,101</u>
Total assets	<u>\$ 6,760,787</u>	<u>\$ 7,080,908</u>	<u>\$ 13,841,695</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 99,218	\$ 25,256	\$ 124,474
Customer deposits	-	6,480	6,480
Current portion of long-term liabilities	224,549	92,990	317,539
Total current liabilities	<u>323,767</u>	<u>124,726</u>	<u>448,493</u>
Long-term liabilities:			
Due in more than one year	1,997,082	1,104,354	3,101,436
Total liabilities	<u>2,320,849</u>	<u>1,229,080</u>	<u>3,549,929</u>
Net Assets			
Invested in capital assets, net of related debt	2,961,626	4,835,274	7,796,900
Restricted for:			
Stabilization by State Statute	333,471	-	333,471
Streets	158,772	-	158,772
Unrestricted	986,069	1,016,554	2,002,623
Total net assets	<u>\$ 4,439,938</u>	<u>\$ 5,851,828</u>	<u>\$ 10,291,766</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 324,532	\$ 388,389	\$ -	\$ -
Public safety	1,441,195	2,652	263,773	2,500
Transportation	78,489	-	64,283	-
Special projects	57,379	43,463	-	136,583
Environmental protection	912,147	170,593	-	-
Interest on long-term debt	92,656	-	-	-
Total governmental activities	<u>2,906,398</u>	<u>605,097</u>	<u>328,056</u>	<u>139,083</u>
Business-type activities:				
Water and sewer	1,439,623	1,546,817	-	44,270
Total business-type activities	<u>1,439,623</u>	<u>1,546,817</u>	<u>-</u>	<u>44,270</u>
Total primary government	<u>\$ 4,346,021</u>	<u>\$ 2,151,914</u>	<u>\$ 328,056</u>	<u>\$ 183,353</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes and licenses

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning, restated

Net assets - ending

Exhibit 2

Net (Expense) Revenue and Changes in Net Assets
Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ 63,857	\$ -	\$ 63,857
(1,172,270)	-	(1,172,270)
(14,206)	-	(14,206)
122,667	-	122,667
(741,554)	-	(741,554)
(92,656)	-	(92,656)
<u>(1,834,162)</u>	<u>-</u>	<u>(1,834,162)</u>
-	151,464	151,464
-	151,464	151,464
<u>(1,834,162)</u>	<u>151,464</u>	<u>(1,682,698)</u>
1,606,992	-	1,606,992
422,614	-	422,614
12,246	-	12,246
236,365	-	236,365
3,786	655	4,441
<u>2,282,003</u>	<u>655</u>	<u>2,282,658</u>
447,841	152,119	599,960
<u>3,992,097</u>	<u>5,699,709</u>	<u>9,691,806</u>
<u>\$ 4,439,938</u>	<u>\$ 5,851,828</u>	<u>\$ 10,291,766</u>

TOWN OF KURE BEACH, NORTH CAROLINA

Exhibit 3

Balance Sheet

Governmental Funds

June 30, 2011

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Non- Major Funds</u>	
Assets				
Cash and cash equivalents	\$ 983,339	\$ -	\$ -	\$ 983,339
Investments	336,662	-	-	336,662
Restricted cash	160,255	-	-	160,255
Taxes receivable, net	29,272	-	-	29,272
Account receivables, net	185,898	-	-	185,898
Due from other funds	132,346	-	-	132,346
Total assets	<u>\$ 1,827,772</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,827,772</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 99,218	\$ -	\$ -	\$ 99,218
Due to other funds	-	81,222	-	81,222
Deferred revenue	29,272	-	-	29,272
Total liabilities	<u>128,490</u>	<u>81,222</u>	<u>-</u>	<u>209,712</u>
Fund Balances:				
Restricted for:				
Streets	158,772	-	-	158,772
State statute	333,471	-	-	333,471
Unassigned	1,207,039	(81,222)	-	1,125,817
Total fund balances	<u>1,699,282</u>	<u>(81,222)</u>	<u>-</u>	<u>1,618,060</u>
Total liabilities and fund balances	<u>\$ 1,827,772</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Capital assets at historical costs	\$ 8,266,183	
Less: accumulated depreciation	<u>3,251,946</u>	5,014,237

Liabilities for earned but deferred revenues in fund statements 29,272

Liabilities owed from governmental activities are not due and payable in the current period and therefore are not reported in the funds:

Installment purchases debt	(2,052,611)	
Other postemployment benefits	(101,359)	
Compensated absences	<u>(67,661)</u>	<u>(2,221,631)</u>

Net assets of governmental activities \$ 4,439,938

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

Exhibit 4

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Non- Major Funds</u>	
Revenues				
Ad valorem taxes	\$ 1,592,182	\$ -	\$ -	\$ 1,592,182
Other taxes and licenses	12,246	-	-	12,246
Unrestricted intergovernmental	658,979	-	-	658,979
Restricted intergovernmental	186,641	17,475	-	204,116
Permits and fees	564,938	-	-	564,938
Sales and services	303,182	-	-	303,182
Investment earnings	3,786	-	-	3,786
Total revenues	<u>3,321,954</u>	<u>17,475</u>	<u>-</u>	<u>3,339,429</u>
Expenditures				
Current:				
General government	357,329	-	-	357,329
Public safety	1,330,669	-	-	1,330,669
Transportation	78,489	-	-	78,489
Special projects	47,858	-	-	47,858
Environmental protection	848,739	-	(900)	847,839
Debt service	336,401	-	-	336,401
Capital outlay	208,564	98,832	-	307,396
Total expenditures	<u>3,208,049</u>	<u>98,832</u>	<u>(900)</u>	<u>3,305,981</u>
Excess (deficiency) of revenues over expenditures	<u>113,905</u>	<u>(81,357)</u>	<u>900</u>	<u>33,448</u>
Other Financing Sources (Uses)				
Transfers from other funds	-	794,533	-	794,533
Transfers to other funds	(785,007)	-	(9,526)	(794,533)
Installment purchase obligations issued	80,263	-	-	80,263
Total other financing sources and uses	<u>(704,744)</u>	<u>794,533</u>	<u>(9,526)</u>	<u>80,263</u>
Net change in fund balances	<u>(590,839)</u>	<u>713,176</u>	<u>(8,626)</u>	<u>113,711</u>
Fund balances, beginning	<u>2,290,121</u>	<u>(794,398)</u>	<u>8,626</u>	<u>1,504,349</u>
Fund balances, ending	<u>\$ 1,699,282</u>	<u>\$ (81,222)</u>	<u>\$ -</u>	<u>\$ 1,618,060</u>

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

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of the Governmental Funds to the Statement of Activities
Governmental Funds
Year Ended June 30, 2011**

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

Net change in fund balances - total governmental funds	\$ 113,711
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.	155,781
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. Change in deferred revenue for tax revenues	14,810
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	3,076
Other postemployment benefits	(3,019)
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.	<u>163,482</u>
Total changes in net assets of governmental activities	<u><u>\$ 447,841</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual - General Fund
Year Ended June 30, 2011

Exhibit 6

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 1,561,914	\$ 1,565,180	\$ 1,592,182	\$ 27,002
Other taxes and licenses	9,500	9,500	12,246	2,746
Unrestricted intergovernmental	652,024	654,209	658,979	4,770
Restricted intergovernmental	55,800	176,566	186,641	10,075
Permits and fees	397,297	429,839	564,938	135,099
Sales and services	178,445	217,575	303,182	85,607
Investment earnings	11,200	11,200	3,786	(7,414)
Total revenues	<u>2,866,180</u>	<u>3,064,069</u>	<u>3,321,954</u>	<u>257,885</u>
Expenditures				
Current:				
General government	388,318	414,129	357,329	56,800
Public safety	1,353,076	1,406,270	1,330,669	75,601
Transportation	55,800	100,000	78,489	21,511
Special projects	24,330	55,475	47,858	7,617
Environmental protection	863,646	874,229	848,739	25,490
Debt service	218,234	336,402	336,401	1
Capital outlay	181,993	217,951	208,564	9,387
Total expenditures	<u>3,085,397</u>	<u>3,404,456</u>	<u>3,208,049</u>	<u>196,407</u>
Revenues over (under) expenditures	<u>(219,217)</u>	<u>(340,387)</u>	<u>113,905</u>	<u>454,292</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	-	80,263	80,263	-
Transfers to other funds	-	-	(785,007)	(785,007)
Fund balance appropriated	219,217	260,124	-	(260,124)
Total other financing sources (uses)	<u>219,217</u>	<u>340,387</u>	<u>(704,744)</u>	<u>(1,045,131)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(590,839)</u>	<u>\$ (590,839)</u>
Fund balances, beginning			2,290,121	
Fund balances, ending			<u>\$ 1,699,282</u>	

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Assets
Proprietary Fund
June 30, 2011

Exhibit 7

	Major Enterprise Fund
	Water and Sewer Fund
Assets	
Current assets:	
Cash and equivalents	\$ 286,817
Investments	668,710
Account receivables, net	203,641
Total current assets	<u>1,159,168</u>
Capital assets, net	5,972,864
Total assets	<u><u>\$ 7,132,032</u></u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 25,256
Due to other funds	51,124
Customer deposits	6,480
Current portion of long-term debt	92,990
Total current liabilities	<u>175,850</u>
Noncurrent liabilities:	
Compensated absences	22,455
Other postemployment benefits payable	37,299
Non-current portion of long-term debt	1,044,600
Total liabilities	<u>1,280,204</u>
Net Assets	
Invested in capital assets, net of related debt	4,835,274
Unrestricted	1,016,554
Total net assets	<u><u>\$ 5,851,828</u></u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended June 30, 2011

Exhibit 8

	Major Enterprise Fund
	<u>Water and Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 1,546,817
Total operating revenues	<u>1,546,817</u>
Operating expenses:	
Administration	258,337
Water and sewer system operations	931,282
Depreciation	217,459
Total operating expenses	<u>1,407,078</u>
Operating income	<u>139,739</u>
Non-operating revenues (expenses):	
Investment earnings	655
Interest and fees	(32,545)
Total non-operating revenues (expenses)	<u>(31,890)</u>
Net income before capital contributions	<u>107,849</u>
Capital contributions	<u>44,270</u>
Change in net assets	152,119
Total net assets, beginning - restated	<u>5,699,709</u>
Total net assets, ending	<u><u>\$ 5,851,828</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2011

Exhibit 9

	Major Enterprise Fund
	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 1,567,223
Cash paid for goods and services	(706,639)
Cash paid to employees for services	(451,298)
Net cash provided by operating activities	<u>409,286</u>
Cash flows from noncapital financing activities	
Repayment of advances from other funds	<u>(5,829)</u>
Cash flows from capital and related financing activities:	
Capital contributions	44,270
Acquisition and construction of capital assets	(157,200)
Proceeds from installment purchases	80,818
Principal paid on installment purchases	(96,253)
Interest and fees paid on installment purchases	(32,545)
Net cash used in capital and related financing activities	<u>(160,910)</u>
Net increase in cash and cash equivalents	242,547
Balances, beginning	44,270
Balances, ending	<u>\$ 286,817</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 139,739</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	217,459
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	20,586
Increase (decrease) in:	
Accounts payable and accrued liabilities	1,314
Compensated absences	7,763
OPEB payable	22,605
Deposits	(180)
Total adjustments	<u>269,547</u>
Net cash provided by operating activities	<u>\$ 409,286</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation

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

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

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

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Capital Projects Fund – This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following non-major governmental funds:

Grant Project Special Revenue Fund – This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following major enterprise funds:

Water and Sewer Fund – This fund is used to account for the Town’s water and sewer operations.

Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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, New Hanover 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 Kure Beach, North Carolina. 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 New Hanover County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. 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 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 KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue and Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Project Funds and the Enterprise Capital Project Funds. The Enterprise Fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the project level for the multi-year funds. The Budget Officer is authorized by the budget ordinance to transfer appropriations within a fund under the following conditions as specified in North Carolina General Statute Chapter 159: amounts between line item expenditures without limitation and without a report being required up to \$10,000 at any one time; amounts within departments and of the same fund and reported as part of the financial statements and shall make an official report immediately to Town Council on such transfers; and may not transfer amounts between funds without prior Town Council action.

Assets, Liabilities, and Fund Equity

Deposits and Investments

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

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash recorded in the Governmental Fund and General Fund represents unexpended Powell Bill grant funds, because their use is completely restricted to the purpose for which the grant was issued, which is street improvements.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2010. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowance for Doubtful Accounts

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Capitalization cost for the Town's assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. 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. Other assets of the Town are depreciated on a class life basis at the following rates:

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

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Vacation leave is accumulated at the rate of up to twenty (20) days per year with each leave being fully vested when earned. For the Town's government-wide and proprietary funds an expense and a liability for compensated absences and the salary-related payments are recorded within the funds as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Assets/Fund Balances

Net Assets - Net assets in the 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 a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through State statutes.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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.

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

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification,

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 25% of budgeted expenditures plus \$250,000. Any portion of the general fund balance in excess of 25% of budgeted expenditures plus \$250,000 may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit Fund Balance or Retained Earnings of Individual Funds

The Capital Project fund had a deficit fund balance at June 30, 2011 of \$81,222. The deficit fund balance was due to timing differences. The Town will enter into an installment purchase agreement, during 2012, with a financial institution to provide funding for this project.

NOTE 3 – DETAIL NOTES ON ALL FUNDS

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 – DETAIL NOTES ON ALL FUNDS (Continued)

At June 30, 2011, the Town’s deposits had a carrying amount of \$1,430,411 and a bank balance of \$1,463,863. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method.

Investments

At June 30, 2011, the Town had \$1,005,372 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.

Receivables

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of allowances for doubtful accounts, if any.

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from other Governments</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 44,456	\$ 29,272	\$ 141,442	\$ 215,170
Total Governmental Activities	<u>\$ 44,456</u>	<u>\$ 29,272</u>	<u>\$ 141,442</u>	<u>\$ 215,170</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 203,641	\$ -	\$ -	\$ 203,641
Total Business-Type Activities	<u>\$ 203,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 203,641</u>

Based on historical experience an allowance for doubtful accounts has not been established.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 – DETAIL NOTES ON ALL FUNDS (Continued)

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,804,111	\$ -	\$ -	\$ 3,804,111
Construction in progress	-	98,697	-	98,697
Total capital assets not being depreciated	<u>3,804,111</u>	<u>98,697</u>	<u>-</u>	<u>3,902,808</u>
Capital assets being depreciated:				
Buildings	545,627	-	-	545,627
Equipment and vehicles	2,832,819	97,676	99,115	2,831,380
Improvements	544,224	-	-	544,224
Infrastructure	284,803	157,341	-	442,144
Total capital assets being depreciated	<u>4,207,473</u>	<u>255,017</u>	<u>99,115</u>	<u>4,363,375</u>
Less accumulated depreciation for:				
Buildings	472,390	23,231	-	495,621
Equipment and vehicles	2,445,836	145,387	99,115	2,492,108
Improvements	39,734	17,927	-	57,661
Infrastructure	195,168	11,388	-	206,556
Total accumulated depreciation	<u>3,153,128</u>	<u>197,933</u>	<u>99,115</u>	<u>3,251,946</u>
Total capital assets being depreciated, net	<u>1,054,345</u>			<u>1,111,429</u>
Government activity capital assets, net	<u>\$ 4,858,456</u>			<u>\$ 5,014,237</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 20,697	\$ -	\$ -	\$ 20,697
Total capital assets not being depreciated	<u>20,697</u>	<u>-</u>	<u>-</u>	<u>20,697</u>
Capital assets being depreciated:				
Plant and Distribution Systems	8,268,757	104,545	-	8,373,302
Buildings	171,029	-	-	171,029
Equipment and vehicles	<u>400,933</u>	<u>52,655</u>	<u>-</u>	<u>453,588</u>
Total capital assets being depreciated	<u>8,840,719</u>	<u>157,200</u>	<u>-</u>	<u>8,997,919</u>
Less accumulated depreciation for:				
Plant and Distribution Systems	2,450,382	166,280	-	2,616,662
Buildings	47,484	4,276	-	51,760
Equipment and vehicles	<u>330,427</u>	<u>46,903</u>	<u>-</u>	<u>377,330</u>
Total accumulated depreciation	<u>2,828,293</u>	<u>217,459</u>	<u>-</u>	<u>3,045,752</u>
Total capital assets being depreciated, net	<u>6,012,426</u>			<u>5,952,167</u>
Water and Sewer activity capital assets, net	<u>\$ 6,033,123</u>			<u>\$ 5,972,864</u>

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

Depreciation expense

General Government	\$ 13,578
Public Safety	110,526
Environmental Protection	64,308
Cultural and Recreational	<u>9,521</u>
Total depreciation expense	<u><u>\$ 197,933</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

Construction Commitments

The government has one active construction project as of June 30, 2011. At year end, the Town's only commitment with contractors related to the Ocean Front Park project, with a remaining commitment of \$994,908 and \$0, was spent to date for that contract.

B. Liabilities

Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description: The Town of Kure 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, 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 6.35% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Kure Beach, North Carolina are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$94,377, \$67,784, and \$59,486, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

Plan Description.

The Town of Kure Beach, North Carolina administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% 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 Town funds the plan when benefits become due. The Town has not reported a liability amount on the Statement of Net Assets because the amount has been determined to be immaterial.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At June 30, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	9
	<hr/>
	10
	<hr/>

Summary of Significant Accounting Policies

Basis of Accounting: The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

Contributions

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

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

Plan Description: The Town contributes to the Supplemental Retirement Income Plan ("Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers and other employees employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5.00% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$92,827, which consisted of \$74,105 from the Town and \$18,722 from the law enforcement officers and other employees. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State's CAFR includes pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

Other Postemployment Benefits (OPEB)

Healthcare Benefits

Plan Description: Under the terms of a Town resolution, the Town administers a single employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System ("System") and have at least fifteen years of creditable service with the Town.

The Town pays a percentage of the cost of coverage based upon the number of years of service for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Funding Policy: By Town resolution, the Town pays a percentage of the cost of the coverage based upon the number of creditable service years the qualified retirees have under the Town resolution. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made either from the General Fund, which is maintained on the modified accrual basis of accounting or the Water and Sewer Fund, which is maintained on the full accrual basis of accounting depending on which fund the employee worked. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2011, the Town's total contributions were \$12,559.

Annual OPEB Cost and Net OPEB Obligation: The Town's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the *annual required contribution of the employer* ("ARC").

The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contributions	\$ 82,094
Interest on net OPEB obligation	3,284
Adjustment to annual required contribution	(47,195)
Annual OPEB cost (expense)	<u>38,183</u>
Contributions made	(12,559)
Increase (decrease) in net OPEB obligation	<u>25,624</u>
Net OPEB obligation, beginning of year	<u>113,034</u>
Net OPEB obligation, end of year	<u><u>\$ 138,658</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 38,183	32.9%	\$ 138,658
2010	113,034	0.0%	113,034

Funded Status and Funding Progress: As of June 30, 2011, the actuarial accrued liability for benefits was \$921,317, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,424,561, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 64.67%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

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

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

Turnover - Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 8.00% initially, reduced to an ultimate rate of 5.60% after six years, was used.

Health Insurance premiums - 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate - The expected long-term inflation assumption of 3.80% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2007 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4.00% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period ended June 30, 2011, was twenty nine years.

Deferred Revenues

The balance in deferred revenues at June 30, 2011 is composed of tax receivables reported in the general fund.

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000, and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year with the reinsurance limit based upon a percentage of the total insurance values.

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 is individually bonded for \$50,000. The remaining employees that have access to funds are under a blanket bond for \$50,000.

The Town carries flood insurance through NCLM-Interlocal Risk Financing Fund of NC.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

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.

Long-Term Obligations

Installment Purchases

The Town has entered into the following installment purchase contracts:

Serviced by the General Fund:

\$3,600,000 loan to acquire the land for Ocean Front Park due in annual installments ranging from \$112,128 to \$67,682 including interest through December 19, 2027; interest at 4.28 percent	\$ 1,103,366
\$875,000 loan to finance the Cutter Court Drainage Project due in monthly installments of \$6,678 including interest through June 23, 2020; interest at 4.40 percent	592,977
\$53,168 loan to finance two police cars due in annual installments of \$14,198 including interest through March 11, 2015; interest at 2.69 percent	53,168
\$27,095 loan to finance a police car due in annual installments of \$7,200 including interest through October 1, 2014; interest at 2.49 percent	27,095
\$204,089 loan to finance a fire pump truck due in annual installments of \$29,517 including interest through June 8, 2012; interest at 3.36 percent	28,557
\$61,720 loan to finance two police cars due in annual installments of \$16,182 including interest through January 26, 2012; interest at 3.27 percent	15,670
\$70,000 loan to finance a fire truck due in annual installments of \$10,361 including interest through October 26, 2011; interest at 3.56 percent	10,000
\$261,181 of a \$1,187,187 loan to construct a water tower and finance town hall renovation due in semi-annual installments of \$11,598 including interest through May 7, 2022; interest at 3.92 percent	205,655
\$18,578 of a \$26,925 loan to finance a tractor due in annual installments of \$4,909 including interest through June 1, 2012; interest at 3.42 percent	9,413
\$32,200 of a \$70,000 loan to finance a backhoe loader due in annual installments of \$6,967 including interest through July 31, 2011; interest at 4.12 percent	6,710
	<u>\$ 2,052,611</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

Serviced by the Water and Sewer Fund:

\$386,654 loan to finance the Sewer Rehabilitation Project due in annual installments of \$13,164 including interest through May 1, 2030; interest at 0.00 percent	\$ 373,490
\$29,985 loan to finance a truck due in annual installments of \$8,132 including interest through April 14, 2014; interest at 3.34 percent	22,854
\$926,006 of a \$1,187,187 loan to construct a water tower and finance town hall renovation due in semi-annual installments of \$41,119 including interest through May 7, 2022; interest at 3.92 percent	729,139
\$8,347 of a \$26,925 loan to finance a tractor due in annual installments of \$2,206 including interest through June 1, 2012; interest at 3.42 percent	4,229
\$37,800 of a \$70,000 loan to finance a backhoe loader due in annual installments of \$8,178 including interest through July 31, 2011; interest at 4.12 percent	7,878
	<u>\$ 1,137,590</u>

The future minimum payments of the installment purchases as of June 30, 2011:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 224,549	\$ 85,151	\$ 92,990	\$ 29,303
2013	157,870	76,207	83,274	26,429
2014	161,626	69,673	85,758	23,945
2015	165,540	62,981	80,207	21,364
2016	148,180	56,165	82,616	18,955
2017-2021	717,988	181,934	452,700	55,154
2022-2026	347,050	70,112	176,545	2,356
2027-2030	129,808	8,334	83,500	-
Total	<u>\$ 2,052,611</u>	<u>\$ 610,557</u>	<u>\$ 1,137,590</u>	<u>\$ 177,506</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

Changes in Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in liabilities reported in long-term debt:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Installment purchases	\$ 2,216,093	\$ 80,263	\$ 243,745	\$ 2,052,611
OPEB liability	98,340	3,019	-	101,359
Compensated absences	70,737	-	3,076	67,661
Total governmental activity long-term liabilities	<u>\$ 2,385,170</u>	<u>\$ 83,282</u>	<u>\$ 246,821</u>	<u>\$ 2,221,631</u>
Business-Type Activities:				
Installment purchases	\$ 1,153,025	\$ 80,818	\$ 96,253	\$ 1,137,590
OPEB liability	14,692	22,607	-	37,299
Compensated absences	14,694	7,761	-	22,455
Total business-type long-term liabilities	<u>\$ 1,182,411</u>	<u>\$ 111,186</u>	<u>\$ 96,253</u>	<u>\$ 1,197,344</u>

Current portion of long-term liabilities at June 30, 2011, consist of \$224,549 and \$92,990 for installment purchases for governmental activities and business-type activities, respectively.

Compensated absences for governmental activities have typically been liquidated in the General Fund.

At June 30, 2011, the Town of Kure Beach, North Carolina had a legal debt margin of \$92,647,709.

Interfund Balances and Activity

Balances due to/from other funds at June 30, 2011 consist of the following:

<u>Due From</u>	<u>Due to</u>
	<u>General Fund</u>
Capital Project Fund	\$ 81,222
Water and Sewer Fund	51,124
	<u>\$ 132,346</u>

Balances are for advances made to pay for expenditures related to capital project funds and reimbursement for transactions between funds.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 3 - DETAIL NOTES ON ALL FUNDS (Continued)

Transfers to/from other funds are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations or for excess funds that were returned to their originating fund. During 2011, the Town transferred \$794,533 to the Capital Project Fund to close various projects that were underfunded in prior years.

Fund Balance

At June 30, 2011, the Town's entire amount of unassigned general fund balance is available for appropriation.

Prior Period Adjustment

During the fiscal year ended June 30, 2011, the Town determined that certain capital assets recorded in the governmental activities as construction in progress were either recorded as capital assets when placed in service in prior years or were projects that shouldn't have been capitalized under the Town's capitalization policy. In addition, the Town determined that proceeds from an installment loan were incorrectly recorded as capital contribution revenue in the water and sewer fund (and business-type activities). Therefore, an adjustment to beginning net assets of the governmental activities and the water and sewer fund balance (and business-type activities net assets) was made to record these corrections. The net effect of these corrections was a decrease in governmental activities' net assets by \$2,359,122 and an increase in water and sewer fund balance (business-type activities' net assets) by \$269,522.

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 KURE BEACH, NORTH CAROLINA
Other Post Employment Benefits
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2011

Exhibit 10

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Project Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
June 30, 2011	\$ -	\$ 921,317	\$ 921,317	0.0%	\$1,424,561	64.67%
Dec. 31, 2009	-	692,723	692,723	0.0%	1,569,672	44.13%

TOWN OF KURE BEACH, NORTH CAROLINA
Other Post Employment Benefits
Required Supplementary Information
Schedule of Employer Contributions
Total primary government

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 38,183	32.9%
2010	113,034	0.0%

SUPPLEMENTAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA **Statement 1**
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual **Page 1 of 4**
General Fund
For the Fiscal Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,565,180	\$ 1,586,414	\$ 21,234
Penalties and interest	-	5,768	5,768
Total	1,565,180	1,592,182	27,002
Other taxes and licenses:			
Motor vehicle licenses	6,000	8,985	2,985
Licenses and fees	3,500	3,261	(239)
Total	9,500	12,246	2,746
Unrestricted intergovernmental:			
Local option sales taxes	500,000	422,614	(77,386)
ABC revenue	15,424	11,071	(4,353)
Hold harmless	-	54,405	54,405
Utility franchise tax	58,000	85,125	27,125
Beer and wine tax	8,600	9,828	1,228
Video programming	35,000	42,977	7,977
Telecommunications tax	15,000	17,241	2,241
Refunds	22,185	15,718	(6,467)
Total	654,209	658,979	4,770
Restricted intergovernmental:			
Grants	112,283	122,358	10,075
Powell Bill allocation	64,283	64,283	-
Total	176,566	186,641	10,075
Permits and fees:			
Garbage fees	226,000	258,155	32,155
Building permits	28,000	32,838	4,838
Cable fees	2,582	2,833	251
TDA funds	167,395	263,773	96,378
Miscellaneous	5,362	5,437	75
Police fees	500	1,902	1,402
Total	429,839	564,938	135,099

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Page 2 of 4

General Fund (Continued)

For the Fiscal Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 64,435	\$ 97,865	\$ 33,430
Impact fees	125,814	171,901	46,087
Miscellaneous	27,326	33,416	6,090
Total	<u>217,575</u>	<u>303,182</u>	<u>85,607</u>
Investment earnings	11,200	3,786	(7,414)
Total Revenues	<u>3,064,069</u>	<u>3,321,954</u>	<u>257,885</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits	14,939	14,873	66
Operating expense	33,571	32,729	842
Total	<u>48,510</u>	<u>47,602</u>	<u>908</u>
Administration:			
Salaries and benefits	74,287	71,902	2,385
Operating expense	199,919	153,003	46,916
Total	<u>274,206</u>	<u>224,905</u>	<u>49,301</u>
Finance:			
Salaries and benefits	66,138	59,952	6,186
Operating expense	25,275	24,870	405
Total	<u>91,413</u>	<u>84,822</u>	<u>6,591</u>
Total general government	<u>414,129</u>	<u>357,329</u>	<u>56,800</u>
Public Safety:			
Police:			
Salaries and benefits	802,561	768,444	34,117
Operating expense	141,624	122,288	19,336
Capital outlay	87,585	79,863	7,722
Total	<u>1,031,770</u>	<u>970,595</u>	<u>61,175</u>
Fire:			
Salaries and benefits	157,351	148,023	9,328
Operating expense	45,750	39,642	6,108
Capital outlay	20,151	19,033	1,118
Total	<u>223,252</u>	<u>206,698</u>	<u>16,554</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

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

Page 3 of 4

General Fund (Continued)

For the Fiscal Year Ended June 30, 2011

	Budget	Actual	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 134,676	\$ 138,969	\$ (4,293)
Operating expense	21,700	16,472	5,228
Total	<u>156,376</u>	<u>155,441</u>	<u>935</u>
Salaries and benefits	74,320	74,040	280
Operating expense	26,663	21,571	5,092
Total	<u>100,983</u>	<u>95,611</u>	<u>5,372</u>
Total public safety	<u>1,512,381</u>	<u>1,428,345</u>	<u>84,036</u>
Transportation:			
Operating expense	100,000	78,489	21,511
Total transportation	<u>100,000</u>	<u>78,489</u>	<u>21,511</u>
Special projects:			
Parks and recreation classes	18,085	16,947	1,138
Street festival	16,000	15,557	443
Community center	16,830	11,738	5,092
Beautification	4,060	3,116	944
Other	500	500	-
Capital outlay	111,840	110,888	952
Total special projects	<u>167,315</u>	<u>158,746</u>	<u>8,569</u>
Environmental protection:			
Salaries and benefits	462,364	454,730	7,634
Operating expense	409,580	394,009	15,571
Capital outlay	2,285	-	2,285
Total environmental protection	<u>874,229</u>	<u>848,739</u>	<u>25,490</u>
Debt service:			
Principal	243,718	243,752	(34)
Interest	92,684	92,649	35
Total debt service	<u>336,402</u>	<u>336,401</u>	<u>1</u>
Total expenditures	<u>3,404,456</u>	<u>3,208,049</u>	<u>196,407</u>
Revenue over (under) expenditures	<u>(340,387)</u>	<u>113,905</u>	<u>454,292</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 1

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual **Page 4 of 4**

General Fund (Continued)

For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Proceeds from installment purchases	\$ 80,263	\$ 80,263	\$ -
Transfers from other funds	-	-	-
Transfers to other funds	-	(785,007)	(785,007)
Fund balance appropriated	260,124	-	(260,124)
Total other financing sources (uses)	<u>340,387</u>	<u>(704,744)</u>	<u>(1,045,131)</u>
Net change in fund balance	<u>\$ -</u>	<u>(590,839)</u>	<u>\$ (590,839)</u>
Fund balances, beginning		<u>2,290,121</u>	
Fund balances, ending		<u>\$ 1,699,282</u>	

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 2

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

Capital Projects Fund

From Inception and for the Fiscal Year Ended June 30, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Federal and State Grants	\$ 849,000	\$ -	\$ 17,475	\$ 17,475
Total revenues	<u>849,000</u>	<u>-</u>	<u>17,475</u>	<u>17,475</u>
Expenditures:				
Capital projects:				
Construction and Landscaping	700,000	-	-	-
Infrastructure (streets, boardwalk, utitilites, etc.)	480,000	-	-	-
Design, Engineering and Grant Administration	151,000	-	98,832	98,832
Total expenditures	<u>1,331,000</u>	<u>-</u>	<u>98,832</u>	<u>98,832</u>
Revenues over (under) expenditures	<u>(482,000)</u>	<u>-</u>	<u>(81,357)</u>	<u>(81,357)</u>
Other financing sources (uses):				
Installment sale proceeds	482,000	-	-	-
Transfers in	-	-	794,533	794,533
Total other financing sources	<u>482,000</u>	<u>-</u>	<u>794,533</u>	<u>794,533</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	713,176	<u>\$ 713,176</u>
Fund balances, beginning			<u>(794,398)</u>	
Fund balances, ending			<u>\$ (81,222)</u>	

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 3

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

Special Revenue Fund - Beach Nourishment Fund

From Inception and for the Fiscal Year Ended June 30, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Grants	\$ 1,582,524	\$ 1,440,024	\$ -	\$ 1,440,024
Interest	10,000	11,609	-	11,609
Program income	516,026	665,466	-	665,466
Total revenues	<u>2,108,550</u>	<u>2,117,099</u>	<u>-</u>	<u>2,117,099</u>
Expenditures:				
Beach renourishment:				
Construction	2,108,550	2,108,473	(900)	2,107,573
Total expenditures	<u>2,108,550</u>	<u>2,108,473</u>	<u>(900)</u>	<u>2,107,573</u>
Other financing sources (uses):				
Transfers out	-	-	(9,526)	(9,526)
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 8,626</u>	(8,626)	<u>\$ -</u>
Fund balances, beginning			<u>8,626</u>	
Fund balances, ending			<u>\$ -</u>	

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 4

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP)

Water and Sewer Fund

For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Water sales and sewer charges:			
Residential and commercial	\$ 1,424,147	\$ 1,312,214	\$ (111,933)
Water and sewer tap fees	27,600	214,063	186,463
Other user fees	-	20,540	20,540
Total	<u>1,451,747</u>	<u>1,546,817</u>	<u>95,070</u>
Non-operating revenues			
Interest earnings	<u>12,000</u>	<u>655</u>	<u>(11,345)</u>
Total revenues	<u>1,463,747</u>	<u>1,547,472</u>	<u>83,725</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	163,404	148,448	14,956
Salaries and benefits - OPS	306,337	302,850	3,487
Utilities	51,750	53,050	(1,300)
Supplies	80,000	79,769	231
Repairs and maintenance	101,900	84,648	17,252
Treatment facility charges	300,000	306,169	(6,169)
Operating expenditures	204,005	184,317	19,688
Capital outlay	162,243	157,200	5,043
Total	<u>1,369,639</u>	<u>1,316,451</u>	<u>53,188</u>
Debt service:			
Interest and fees	32,545	32,545	-
Principal retirement	96,633	96,253	380
Total	<u>129,178</u>	<u>128,798</u>	<u>380</u>
Total expenditures	<u>1,498,817</u>	<u>1,445,249</u>	<u>53,568</u>
Revenues over (under) expenditures	(35,070)	102,223	137,293

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 4

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

Water and Sewer Fund (Continued)

For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Grants	\$ -	\$ 44,270	\$ 44,270
Installment purchase proceeds	-	80,818	80,818
Transfers out to the Water and Sewer Capital Fund	-	(21,563)	(21,563)
Fund balance appropriated	35,070	-	(35,070)
Total other financing sources	<u>35,070</u>	<u>103,525</u>	<u>68,455</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 205,748</u>	<u>\$ 205,748</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 205,748	
Reconciling items:			
Capital outlay		157,200	
Depreciation		(217,459)	
Installment purchase proceeds		(80,818)	
Principal retirement		96,253	
Change in OPEB and compensated absences		(30,368)	
Interfund transfers		21,563	
Total reconciling items		<u>(53,629)</u>	
Change in net assets		<u>\$ 152,119</u>	

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 5

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

Water Improvements Capital Projects Fund

From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Local match	\$ 95,000	\$ -	\$ -	\$ -
Federal and State Grants	204,000	56,371	-	56,371
Total revenues	<u>299,000</u>	<u>56,371</u>	<u>-</u>	<u>56,371</u>
Expenditures:				
Capital projects:				
Planning and design	17,500	-	-	-
Construction	273,000	77,934	-	77,934
Administration	8,500	-	-	-
Total expenditures	<u>299,000</u>	<u>77,934</u>	<u>-</u>	<u>77,934</u>
Other financing sources (uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>21,563</u>	<u>21,563</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (21,563)</u>	<u>\$ 21,563</u>	<u>\$ -</u>

OTHER SCHEDULES

TOWN OF KURE BEACH, NORTH CAROLINA
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2011

Schedule 1

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2011
2010-2011	\$ -	\$ 1,598,067	\$ 1,584,911	\$ 13,156
2009-2010	11,860	-	7,723	4,137
2008-2009	1,414	-	655	759
2007-2008	726	-	(314)	1,040
2006-2007	309	-	(1,431)	1,740
2005-2006	73	-	(1,299)	1,372
2004-2005	13	-	(1,019)	1,032
2003-2004	67	-	(938)	1,005
2002-2003	-	-	(538)	538
2001-2002	-	-	(505)	505
2001 and prior	-	-	(3,988)	3,988
Total	\$ 14,462	\$ 1,598,067	\$ 1,583,257	\$ 29,272

Ad valorem taxes receivable - net \$ 29,272

Reconciliation with revenues:

Ad valorem taxes - general fund	1,592,182
Reconciling items:	
Write offs, collection fees, and discounts	11,604
Miscellaneous adjustments	(14,854)
Interest collected	(5,675)
	<u><u>\$ 1,583,257</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 2

Analysis of Current Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2011

	Town-wide		Total Levy		
	Property Valuation (in Thousand)	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxes at current year rate	\$ 1,161,300	0.135	\$1,567,755	\$1,567,755	\$ -
Registered motor vehicles at prior year rates	22,454	0.135	30,312	-	30,312
Total	<u>1,183,754</u>		<u>1,598,067</u>	<u>1,567,755</u>	<u>30,312</u>
Total property value	<u>\$ 1,183,754</u>				
Net levy			<u>1,598,067</u>	<u>1,567,755</u>	<u>30,312</u>
Uncollected taxes at June 30, 2011			<u>13,156</u>	<u>7,671</u>	<u>5,485</u>
Current year's taxes collected			<u>\$1,584,911</u>	<u>\$1,560,084</u>	<u>\$ 24,827</u>
Current levy collection percentage			<u>99.18%</u>	<u>99.51%</u>	<u>81.90%</u>