

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2013



Town Council Members

Dean Lambeth, Mayor
Chuck Keener, Mayor Pro Tem
Emilie Swearingen
David Heglar
Steve Pagley

Administrative and Financial Staff

Nancy Avery, Town Clerk
Arlen Copenhaver, Budget and Finance Officer

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Kure Beach, North Carolina (the "Town"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

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

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

Opinions

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Town of Kure Beach, North Carolina as of June 30, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12; the Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress and Schedule of Employer Contributions on page 43; and the Other Postemployment Benefits - Schedule of Funding Progress and Schedule of Employer Contributions on page 44, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of Town of Kure Beach, North Carolina. The budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2013 on our consideration of the Town of Kure Beach, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and on the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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 for the fiscal year ended June 30, 2013. 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

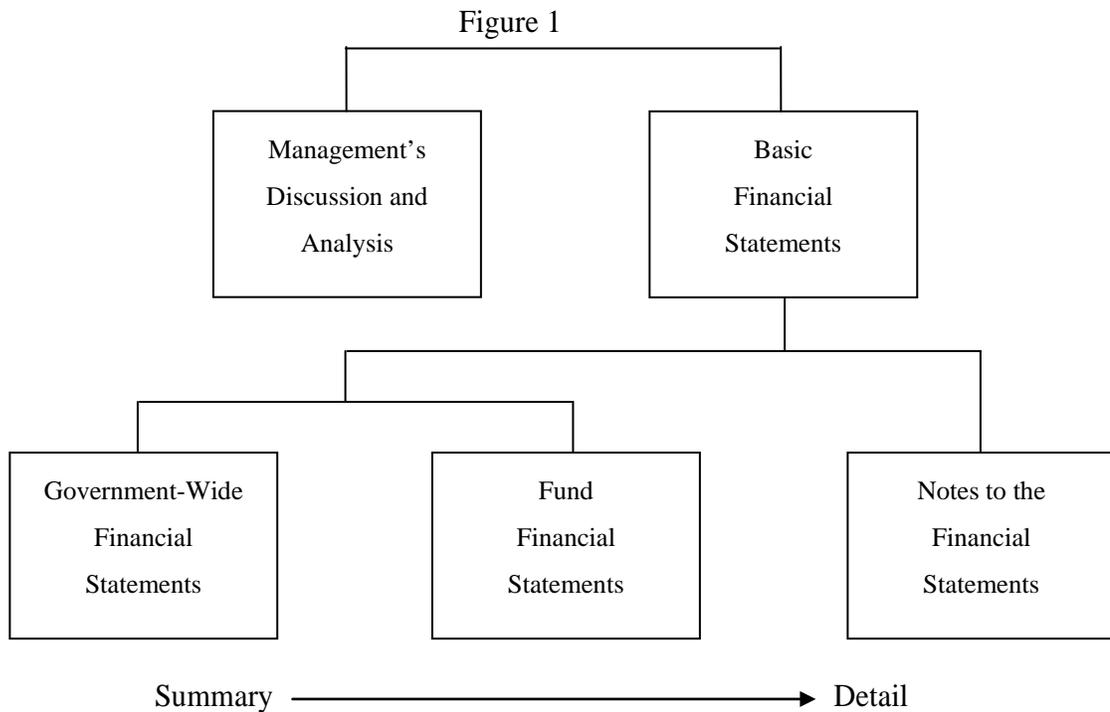
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$12,709,848 (net position).
- The government's total net position increased by \$2,097,867.
- As of the close of the current fiscal year, the Town's total governmental funds reported combined ending fund balances of \$3,090,164 with a net change of \$713,916 in fund balance. Approximately 24.2% of this total amount or \$746,364 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,580,826, or 46.8% of total General Fund expenditures for the fiscal year. The combined unassigned and assigned fund balance for the General Fund was \$2,343,800, or 69.4% of total General Fund expenditures for the fiscal year.
- The Town's governmental activities capital assets (net of accumulated depreciation) increased by \$948,905 during the current fiscal year. The key factor in this increase was the completion of the Town's Ocean Front Park.
- The Town's total long-term liabilities decreased by \$301,472 during the current fiscal year. The key factors in this decrease were the required annual payment of principal on outstanding installment purchases and a writeoff of outstanding governmental debt in the amount of \$216,330 due to completion of certain requirements associated with the related program.
- An increase in the tax rate, capital grants to finance the construction of the Town's Ocean Front Park, and an increase in Federal asset forfeiture funds were the major contributors to the \$1,373,162 (36.8%) increase in the Town's governmental activities revenues for 2013.
- The business-type activities revenue increased by \$360,785 (23.6%). The most significant component of the increase was a capital contribution of \$216,330 relating to principal forgiveness of an American Recovery and Reinvestment Act loan.
- Governmental activities expenses for 2013 remained steady as compared to 2012, with a total decrease of \$78,165 (2.3%) due to the Town's focus on controlling expenditures during the year. Business-type activities expenses also remained relatively constant with an increase of \$34,461 (2.3%).

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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 10) 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; 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, 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 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

The Town of Kure Beach adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, 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 has one kind of proprietary fund, an Enterprise Fund.

An 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 Position 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 10 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's progress in funding its obligation to provide pension benefits to its employees.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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

Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 3,253,062	\$ 2,498,541	\$ 1,645,473	\$ 1,332,559	\$ 4,898,535	\$ 3,831,100
Capital assets	6,168,612	5,219,707	5,626,529	5,809,167	11,795,141	11,028,874
Total assets	<u>9,421,674</u>	<u>7,718,248</u>	<u>7,272,002</u>	<u>7,141,726</u>	<u>16,693,676</u>	<u>14,859,974</u>
Liabilities:						
Long-term liabilities	2,807,897	2,887,443	976,762	1,198,688	3,784,659	4,086,131
Other liabilities	<u>138,327</u>	<u>98,775</u>	<u>60,842</u>	<u>63,087</u>	<u>199,169</u>	<u>161,862</u>
Total liabilities	<u>2,946,224</u>	<u>2,986,218</u>	<u>1,037,604</u>	<u>1,261,775</u>	<u>3,983,828</u>	<u>4,247,993</u>
Net Position:						
Net invested in capital						
assets	4,019,191	2,889,858	4,805,790	4,736,378	8,824,981	7,626,236
Restricted	746,364	513,064	-	-	746,364	513,064
Unrestricted	<u>1,709,895</u>	<u>1,329,108</u>	<u>1,428,608</u>	<u>1,143,573</u>	<u>3,138,503</u>	<u>2,472,681</u>
Total net position	<u>\$ 6,475,450</u>	<u>\$ 4,732,030</u>	<u>\$ 6,234,398</u>	<u>\$ 5,879,951</u>	<u>\$ 12,709,848</u>	<u>\$ 10,611,981</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Kure Beach exceeded liabilities by \$12,709,848 as of June 30, 2013. The Town's net position for governmental activities and business-type activities were \$6,475,450 and \$6,234,398, respectively, for the fiscal year ended June 30, 2013. However, the largest portion, \$8,824,981, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position of \$746,364 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,138,503 is unrestricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.25%.
- Increase in the tax rate, capital grants to finance the construction of the Town's Ocean Front Park, and Federal asset forfeiture funds were the major contributors to the overall increase in revenues.

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

Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,125,500	\$ 775,587	\$ 1,673,721	\$ 1,529,218	\$ 2,799,221	\$ 2,304,805
Operating grants and contributions	226,663	218,236	-	-	226,663	218,236
Capital grants and contributions	844,322	93,773	216,330	-	1,060,652	93,773
General revenues:						
Property taxes	2,086,944	1,927,337	-	-	2,086,944	1,927,337
Other taxes	567,554	468,896	-	-	567,554	468,896
Grants and contributions not restricted to specific programs	254,980	248,604	-	-	254,980	248,604
Other	2,257	2,625	1,880	1,928	4,137	4,553
Total revenues	5,108,220	3,735,058	1,891,931	1,531,146	7,000,151	5,266,204
Expenses:						
General government	681,671	542,209	-	-	681,671	542,209
Public safety	1,712,265	1,882,752	-	-	1,712,265	1,882,752
Highways/streets	21,731	30,130	-	-	21,731	30,130
Environmental protection	807,157	855,930	-	-	807,157	855,930
Interest on long-term debt	91,560	87,774	-	-	91,560	87,774
Water and sewer	-	-	1,537,484	1,503,023	1,537,484	1,503,023
Other	50,416	44,171	-	-	50,416	44,171
Total expenses	3,364,800	3,442,966	1,537,484	1,503,023	4,902,284	4,945,989

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
	Increase in net position	\$ 1,743,420	\$ 292,092	\$ 354,447	\$ 28,123	\$ 2,097,867
Net position, July 1,	4,732,030	4,439,938	5,879,951	5,851,828	10,611,981	10,291,766
Net position, June 30,	<u>\$ 6,475,450</u>	<u>\$ 4,732,030</u>	<u>\$ 6,234,398</u>	<u>\$ 5,879,951</u>	<u>\$ 12,709,848</u>	<u>\$ 10,611,981</u>

Governmental Activities - Governmental activities increased the Town's net position by \$1,743,420. The key elements of this increase are as follows:

- Tax revenues increased as a result of an increase to the tax rate.
- Capital grants obtained to assist the Town in financing the construction of the Ocean Front Park.
- Receipt of Federal asset forfeiture funds

Business-Type Activities - Business-type activities of the Town reported \$6,234,398 in net position, an increase of \$354,447. The key elements of this increase were a capital contribution relating to principal forgiveness on an American Recovery and Reinvestment Act loan and an increase to the rates for water and sewer usage above the minimum amounts.

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town'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'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. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,580,826, while the total fund balance reached \$3,090,164. 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 46.8% of total General Fund expenditures, while total fund balance is 91.5% of total General Fund expenditures.

At June 30, 2013, the governmental funds of the Town of Kure Beach reported a fund balance of \$3,090,164.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

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 position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,428,608. 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's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$11,795,141 (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):

- Construction of the Town's Ocean Front Park

Town of Kure Beach, North Carolina's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2013	2012	2013	2012	2013	2012
Land	\$ 3,804,111	\$ 3,804,111	\$ 20,697	\$ 20,697	\$ 3,824,808	\$ 3,824,808
Building	791,412	42,980	110,718	114,993	902,130	157,973
Equipment and vehicles	414,084	346,433	54,409	79,353	468,493	425,786
Improvements other than buildings	463,631	483,734	-	-	463,631	483,734
Plant and Distribution Systems	-	-	5,440,705	5,594,124	5,440,705	5,594,124
Infrastructure	695,374	230,941	-	-	695,374	230,941
Construction in progress	-	311,508	-	-	-	311,508
Total	<u>\$ 6,168,612</u>	<u>\$ 5,219,707</u>	<u>\$ 5,626,529</u>	<u>\$ 5,809,167</u>	<u>\$ 11,795,141</u>	<u>\$ 11,028,874</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, 2013, the Town had total debt outstanding of \$2,970,160. Installment debt for governmental type activities and business-type activities were \$2,149,421 and \$820,739, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013

Additional information regarding the Town'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 \$3,977,425 General Fund budget for fiscal year 2013-2014. This budget represents a 5% increase from the fiscal year 2012-2013 amended budget.

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. You can also call (910) 458-8216, visit our website www.townofkurebeach.org or send an email to acopenhaver@townofkurebeach.org for more information.

BASIC FINANCIAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Position
June 30, 2013

Exhibit 1

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,430,342	\$ 1,435,834	\$ 3,866,176
Investments	55,961	-	55,961
Receivables, net	272,457	244,593	517,050
Internal balances	34,954	(34,954)	-
Restricted cash and cash equivalents	459,348	-	459,348
Total current assets	<u>3,253,062</u>	<u>1,645,473</u>	<u>4,898,535</u>
Non-current assets:			
Land, non-depreciable improvements, and construction in progress	3,804,111	20,697	3,824,808
Other capital assets, net of depreciation	2,364,501	5,605,832	7,970,333
Total capital assets	<u>6,168,612</u>	<u>5,626,529</u>	<u>11,795,141</u>
Total assets	<u>\$ 9,421,674</u>	<u>\$ 7,272,002</u>	<u>\$ 16,693,676</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 138,327	\$ 54,482	\$ 192,809
Customer deposits	-	6,360	6,360
Current portion of long-term liabilities	219,128	84,321	303,449
Total current liabilities	<u>357,455</u>	<u>145,163</u>	<u>502,618</u>
Long-term liabilities:			
Due in more than one year	2,588,769	892,441	3,481,210
Total liabilities	<u>2,946,224</u>	<u>1,037,604</u>	<u>3,983,828</u>
Net Position			
Net investment in capital assets	4,019,191	4,805,790	8,824,981
Restricted for:			
Stabilization by State Statute	284,146	-	284,146
Streets	220,607	-	220,607
Federal Asset Forfeitures	231,611	-	231,611
Other functions	10,000	-	10,000
Unrestricted	1,709,895	1,428,608	3,138,503
Total net position	<u>\$ 6,475,450</u>	<u>\$ 6,234,398</u>	<u>\$ 12,709,848</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, 2013

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>
Primary government:				
Governmental activities:				
General government	\$ 681,671	\$ 436,609	\$ -	\$ -
Public safety	1,712,265	320,452	163,150	-
Transportation	21,731	-	63,513	-
Special projects	50,416	87,694	-	844,322
Environmental protection	807,157	280,745	-	-
Interest on long-term debt	91,560	-	-	-
Total governmental activities	<u>3,364,800</u>	<u>1,125,500</u>	<u>226,663</u>	<u>844,322</u>
Business-type activities:				
Water and sewer	1,537,484	1,673,721	-	216,330
Total business-type activities	<u>1,537,484</u>	<u>1,673,721</u>	<u>-</u>	<u>216,330</u>
Total primary government	<u>\$ 4,902,284</u>	<u>\$ 2,799,221</u>	<u>\$ 226,663</u>	<u>\$ 1,060,652</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes, licenses and fees

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Total general revenues, special items, and transfers

Change in net position

Net position - beginning

Net position - ending

Exhibit 2

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (245,062)	\$ -	\$ (245,062)
(1,228,663)	-	(1,228,663)
41,782	-	41,782
881,600	-	881,600
(526,412)	-	(526,412)
(91,560)	-	(91,560)
<u>(1,168,315)</u>	<u>-</u>	<u>(1,168,315)</u>
-	352,567	352,567
-	352,567	352,567
<u>(1,168,315)</u>	<u>352,567</u>	<u>(815,748)</u>
2,086,944	-	2,086,944
554,554	-	554,554
13,000	-	13,000
254,980	-	254,980
2,257	1,880	4,137
<u>2,911,735</u>	<u>1,880</u>	<u>2,913,615</u>
1,743,420	354,447	2,097,867
4,732,030	5,879,951	10,611,981
<u>\$ 6,475,450</u>	<u>\$ 6,234,398</u>	<u>\$ 12,709,848</u>

Balance Sheet

Governmental Funds

June 30, 2013

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	
Assets			
Cash and cash equivalents	\$ 2,429,036	\$ 1,306	\$ 2,430,342
Investments	55,961	-	55,961
Restricted cash	459,348	-	459,348
Taxes receivable, net	24,571	-	24,571
Account receivables, net	247,886	-	247,886
Due from other funds	36,260	-	36,260
Total assets	<u>\$ 3,253,062</u>	<u>\$ 1,306</u>	<u>\$ 3,254,368</u>
Liabilities, Deferred Inflow of Resources and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 138,327	\$ -	\$ 138,327
Due to other funds	-	1,306	1,306
Total liabilities	<u>138,327</u>	<u>1,306</u>	<u>139,633</u>
Deferred Inflow of Resources:			
Property taxes receivable	24,571	-	24,571
	<u>24,571</u>	<u>-</u>	<u>24,571</u>
Fund Balances:			
Restricted for:			
Streets	220,607	-	220,607
State statute	284,146	-	284,146
Federal asset forfeitures	231,611	-	231,611
Other functions	10,000	-	10,000
Assigned:			
Storm water	762,974	-	762,974
Unassigned:			
Total fund balances	<u>3,090,164</u>	<u>-</u>	<u>3,090,164</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,253,062</u>	<u>\$ 1,306</u>	

TOWN OF KURE BEACH, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
Governmental Funds
June 30, 2013

Exhibit 4

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

Total Fund Balance, Governmental Funds	\$ 3,090,164
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets at historical costs	9,804,139
Less: accumulated depreciation	<u>3,635,527</u>
Net adjustment to increase fund balance-total governmental funds to arrive at net assets - governmental activities	<u>6,168,612</u>
Liabilities for earned but considered deferred inflows of resources in fund statements	<u>24,571</u>
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	(2,149,421)
Net pension obligation	(239,967)
Other postemployment benefits	(335,456)
Compensated absences	<u>(83,053)</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets - governmental activities	<u>(2,807,897)</u>
Net position of governmental activities	<u><u>\$ 6,475,450</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

Exhibit 5

	<u>Major Funds</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
Revenues			
Ad valorem taxes	\$ 2,085,891	\$ -	\$ 2,085,891
Other taxes and licenses	11,690	-	11,690
Unrestricted intergovernmental	809,489	-	809,489
Restricted intergovernmental	381,590	840,762	1,222,352
Permits and fees	509,745	-	509,745
Sales and services	465,743	-	465,743
Investment earnings	2,227	30	2,257
Total revenues	<u>4,266,375</u>	<u>840,792</u>	<u>5,107,167</u>
Expenditures			
Current:			
General government	666,359	-	666,359
Public safety	1,532,574	-	1,532,574
Transportation	21,731	-	21,731
Special projects	41,216	-	41,216
Environmental protection	723,251	-	723,251
Debt service	301,824	-	301,824
Capital outlay	89,861	1,046,271	1,136,132
Total expenditures	<u>3,376,816</u>	<u>1,046,271</u>	<u>4,423,087</u>
Excess (deficiency) of revenues over expenditures	<u>889,559</u>	<u>(205,479)</u>	<u>684,080</u>
Other Financing Sources (Uses)			
Transfers from other funds	-	58,440	58,440
Transfers to other funds	(58,440)	-	(58,440)
Installment purchase obligations issued	29,836	-	29,836
Total other financing sources (uses)	<u>(28,604)</u>	<u>58,440</u>	<u>29,836</u>
Net change in fund balances	<u>860,955</u>	<u>(147,039)</u>	<u>713,916</u>
Fund balances, beginning	<u>2,229,209</u>	<u>147,039</u>	<u>2,376,248</u>
Fund balances, ending	<u>\$ 3,090,164</u>	<u>\$ -</u>	<u>\$ 3,090,164</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, 2013**

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

Net change in fund balances - total governmental funds	\$ 713,916
<p>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.</p>	
Capital outlay expenditures which were capitalized	1,140,181
Depreciation expense for governmental assets	(191,276)
	<u>948,905</u>
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Change in unavailable revenue for tax revenues	1,053
<p>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:</p>	
Compensated absences	(3,304)
Net pension obligation	(14,225)
Other postemployment benefits	(83,353)
<p>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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	
	<u>180,428</u>
Total changes in net position of governmental activities	<u><u>\$ 1,743,420</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, 2013

Exhibit 7

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 2,044,900	\$ 2,059,900	\$ 2,085,891	\$ 25,991
Other taxes and licenses	11,500	11,500	11,690	190
Unrestricted intergovernmental	704,700	752,700	809,489	56,789
Restricted intergovernmental	60,800	371,543	381,590	10,047
Permits and fees	441,874	441,874	509,745	67,871
Sales and services	358,900	398,600	465,743	67,143
Investment earnings	2,450	2,450	2,227	(223)
Total revenues	<u>3,625,124</u>	<u>4,038,567</u>	<u>4,266,375</u>	<u>227,808</u>
Expenditures				
Current:				
General government	756,395	777,595	666,359	111,236
Public safety	1,792,451	1,817,451	1,532,574	284,877
Transportation	60,000	60,000	21,731	38,269
Special projects	57,671	57,671	41,216	16,455
Environmental protection	795,019	805,019	723,251	81,768
Debt service	301,840	301,840	301,824	16
Capital outlay	140,794	202,491	89,861	112,630
Total expenditures	<u>3,904,170</u>	<u>4,022,067</u>	<u>3,376,816</u>	<u>645,251</u>
Revenues over (under) expenditures	<u>(279,046)</u>	<u>16,500</u>	<u>889,559</u>	<u>873,059</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	32,000	32,000	29,836	(2,164)
Transfers to other funds	237,046	(58,500)	(58,440)	60
Total other financing sources (uses)	<u>269,046</u>	<u>(26,500)</u>	<u>(28,604)</u>	<u>(2,104)</u>
Fund balance appropriated	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>860,955</u>	<u>\$ 860,955</u>
Fund balances, beginning			2,229,209	
Fund balances, ending			<u>\$ 3,090,164</u>	

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Position
Proprietary Fund
June 30, 2013

Exhibit 8

	Major Enterprise Fund
	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and equivalents	\$ 1,435,834
Account receivables, net	244,593
Total current assets	<u>1,680,427</u>
Capital assets, net	5,626,529
Total assets	<u><u>\$ 7,306,956</u></u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 54,482
Due to other funds	34,954
Customer deposits	6,360
Current portion of long-term debt	84,321
Total current liabilities	<u>180,117</u>
Noncurrent liabilities:	
Compensated absences	28,153
Other postemployment benefits payable	127,870
Non-current portion of long-term debt	736,418
Total liabilities	<u>1,072,558</u>
Net Position	
Net investment in capital assets	4,805,790
Unrestricted	1,428,608
Total Net Position	<u><u>\$ 6,234,398</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2013

Exhibit 9

	Major Enterprise Fund
	Water and Sewer Fund
Operating revenues:	
Charges for services	\$ 1,667,207
Other operating revenues	6,514
Total operating revenues	<u>1,673,721</u>
Operating expenses:	
Administration	356,717
Water and sewer system operations	953,167
Depreciation	200,835
Total operating expenses	<u>1,510,719</u>
Operating income	<u>163,002</u>
Non-operating revenues (expenses):	
Investment earnings	1,880
Interest and fees	(26,765)
Total non-operating revenues (expenses)	<u>(24,885)</u>
Net income before capital contributions	<u>138,117</u>
Capital contributions	<u>216,330</u>
Change in net position	354,447
Total net position, beginning	5,879,951
Total net position, ending	<u><u>\$ 6,234,398</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2013

Exhibit 10

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,654,356
Cash paid for goods and services	(771,810)
Cash paid to employees for services	(510,075)
Net cash provided by operating activities	<u>372,471</u>
Cash flows from noncapital financing activities	
Advances from other funds	<u>2,640</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(18,197)
Proceeds from installment purchases	46,006
Principal paid on installment purchases	(81,726)
Interest and fees paid on installment purchases	(26,765)
Net cash used in capital and related financing activities	<u>(80,682)</u>
Cash flows from investing activities:	
Interest	<u>1,880</u>
Net increase in cash and cash equivalents	296,309
Balances, beginning	<u>1,139,525</u>
Balances, ending	<u>\$ 1,435,834</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 163,002</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	200,835
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(19,245)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(2,125)
Compensated absences	2,783
Other postemployment benefits payable	27,341
Deposits	(120)
Total adjustments	<u>209,469</u>
Net cash provided by operating activities	<u>\$ 372,471</u>
Noncash investing activities:	
Reduction in federal debt through completion of related program	<u>\$ 216,330</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 position 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.

The Town reports the following major governmental funds:

General Fund – This 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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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. 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,

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position 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.

Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the General and Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Project Fund. 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, Deferred Inflow of Resources, 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 and Federal Asset Forfeiture grant funds and contributions, because their use is completely restricted to the purpose for which the grant or contribution was issued or given, which is street improvements, law enforcement equipment or training and educational programs.

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, 2012. 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Capital 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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element called deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets the criterion for this category – property taxes receivable.

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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life 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 Position/Fund Balances

Net Position - Net position in the government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents 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 four 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.

Restricted for Federal asset forfeiture – portion of fund balance that is restricted by Federal regulations. This amount represents the balance of total unexpended federal asset forfeiture funds received by the Town.

Restricted for other functions – portion of fund balance that is restricted in the amount of unspent contributions given for the purpose of performing educational programs at the Town's Ocean Front Park.

TOWN OF KURE BEACH, NORTH CAROLINA

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned fund balance – portion of fund balance that Town of Kure Beach, North Carolina intends to use for specific purposes. Assigned for storm water is the portion of fund balance that has been designated or budgeted by the Town Council for the maintenance and improvement of the Town's storm water system.

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, 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 an unrestricted fund balance in the Governmental Funds of no less than 32% of the total projected expenditures be maintained. Unrestricted fund balance is the total of all committed, assigned and unassigned fund balance, as reported in the Annual Financial Report. Unrestricted fund balance in excess of 32% is available for general appropriation during the budget year as approved by the Town Council. Restricted fund balances only can be used, by authorization of the Town Council, for the purposes for which they were externally restricted. At the end of the fiscal year, after the annual audit is complete and financial statements have been reported, the Town Council may, at its discretion, credit any unrestricted fund balance in excess of 75% of the subsequent year's total expenditures, to a capital reserve fund. This designation will be done by formal resolution of the Town Council. If a catastrophic, economic or natural event occurs that requires a 25% or more deviation from the total budgeted revenues or expenditures, the unrestricted fund balance can be reduced below 32% of the total projected expenditures by Town Council action. In such an event, the Town Council shall develop a recovery plan to rebuild the fund balance within 36 months of the current fiscal year end.

NOTE 2 – 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 – DETAIL NOTES ON ALL FUNDS (Continued)

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.

At June 30, 2013, the Town’s deposits had a carrying amount of \$4,325,524 and a bank balance of \$4,452,342. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method.

Investments

At June 30, 2013, the Town’s investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
NC Capital Management Trust - Cash Portfolio	\$ 5,814	N/A	AAAm
NC Capital Management Trust - Term Portfolio	50,147	0.3 years	Unrated
	<u>\$ 55,961</u>		

Interest Rate Risk - The Town has no formal investment policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town’s internal investment policy limits the Town’s investment portfolio to maturities of 12 months or less.

Credit Risk – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town’s investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2013. The Town’s investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Receivables

The amounts presented in the Balance Sheet and the Statement of Net Position 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	\$ 52,303	\$ 24,571	\$ 195,583	\$ 272,457
Total Governmental Activities	<u>\$ 52,303</u>	<u>\$ 24,571</u>	<u>\$ 195,583</u>	<u>\$ 272,457</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 244,593	\$ -	\$ -	\$ 244,593
Total Business-Type Activities	<u>\$ 244,593</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,593</u>

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

Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2013, 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	311,508	447,112	758,620	-
Total capital assets not being depreciated	<u>4,115,619</u>	<u>447,112</u>	<u>758,620</u>	<u>3,804,111</u>
Capital assets being depreciated:				
Buildings	545,627	758,620	-	1,304,247
Equipment and vehicles	2,988,627	209,863	-	3,198,490
Improvements	560,509	-	-	560,509
Infrastructure	453,576	483,206	-	936,782
Total capital assets being depreciated	<u>4,548,339</u>	<u>1,451,689</u>	<u>-</u>	<u>6,000,028</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Less accumulated depreciation for:				
Buildings	\$ 502,647	\$ 10,188	\$ -	\$ 512,835
Equipment and vehicles	2,642,194	142,212	-	2,784,406
Improvements	76,775	20,103	-	96,878
Infrastructure	<u>222,635</u>	<u>18,773</u>	<u>-</u>	<u>241,408</u>
Total accumulated depreciation	<u>3,444,251</u>	<u>191,276</u>	<u>-</u>	<u>3,635,527</u>
Total capital assets being depreciated, net	<u>1,104,088</u>			<u>2,364,501</u>
Government activity capital assets, net	<u>\$ 5,219,707</u>			<u>\$ 6,168,612</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	<u>\$ 20,697</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,697</u>
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	8,378,302	14,147	-	8,392,449
Buildings	171,029	-	-	171,029
Equipment and vehicles	<u>488,077</u>	<u>4,050</u>	<u>-</u>	<u>492,127</u>
Total capital assets being depreciated	<u>9,037,408</u>	<u>18,197</u>	<u>-</u>	<u>9,055,605</u>
Less accumulated depreciation for:				
Plant and Distribution Systems	2,784,178	167,566	-	2,951,744
Buildings	56,036	4,275	-	60,311
Equipment and vehicles	<u>408,724</u>	<u>28,994</u>	<u>-</u>	<u>437,718</u>
Total accumulated depreciation	<u>3,248,938</u>	<u>200,835</u>	<u>-</u>	<u>3,449,773</u>
Total capital assets being depreciated, net	<u>5,788,470</u>			<u>5,605,832</u>
Water and Sewer activity capital assets, net	<u>\$ 5,809,167</u>			<u>\$ 5,626,529</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

General Government	\$ 13,122
Public Safety	106,808
Environmental Protection	62,146
Cultural and Recreational	9,200
Total depreciation expense	<u>\$ 191,276</u>

B. Liabilities

Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description: The Town of Kure Beach, North Carolina 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 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.95% and 6.77%, 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, 2013, 2012, and 2011 were \$104,960, \$97,336, and \$94,377, 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	11
	<u>12</u>

A separate report was not issued for the plan.

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.

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases.

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

Annual required contributions	\$ 19,754
Interest on net pension obligation	11,287
Adjustment to annual required contribution	(14,048)
Annual pension cost (expense)	<u>16,993</u>
Contributions made	(2,768)
Increase (decrease) in net pension obligation	<u>14,225</u>
Net pension obligation, beginning of year	225,742
Net pension obligation, end of year	<u><u>\$ 239,967</u></u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

For Year Ended June 30	Two Year Trend Information		
	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2013	\$ 16,993	16.3%	\$ 239,967
2012	17,719	15.6%	225,742

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$164,074. The covered payroll (annual payroll of active employees covered by the plan) was \$582,271, and the ratios of the UAAL to the covered payroll was 28.2%.

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

c. Supplemental Retirement Income Plan for Law Enforcement Officers 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, 2013 were \$93,012, which consisted of \$76,452 from the Town and \$16,560 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 2 - 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.

Membership of the Retiree Health Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Retirees receiving benefits	8
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	36
	<u>44</u>

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.

The current annual required contribution (ARC) rate is 9.7% of annual covered payroll. For the current year, the Town contributed \$34,604 or 2.3% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the Retiree Health Plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies: 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.

Annual OPEB Cost and Net OPEB Obligation: The Town's annual OPEB cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. 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.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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

Annual required contributions	\$ 144,668
Interest on net OPEB obligation	14,105
Adjustment to annual required contribution	(13,475)
Annual OPEB cost (expense)	<u>145,298</u>
Contributions made	<u>(34,604)</u>
Increase (decrease) in net OPEB obligation	110,694
Net OPEB obligation, beginning of year	<u>352,632</u>
Net OPEB obligation, end of year	<u><u>\$ 463,326</u></u>

Three Year Trend Information			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 145,298	23.8%	\$ 463,326
2012	237,102	9.8%	352,632
2011	38,183	32.9%	138,658

Funded Status and Funding Progress: As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,566,041. The covered payroll (annual payroll of active employees covered by the plan) was \$1,487,530, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 105.3%. Actuarial valuations of an ongoing plan involve 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 of assets, consistent with the long-term perspective of the calculations.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 5.00% to 8.50% annually. The investment rate included a 3.00% inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012, was 30 years.

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Deferred Inflows of Resources

The balance in deferred inflows of resources at June 30, 2013 is composed of tax receivables reported in the general fund.

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	\$ 973,558
\$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	479,975

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$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	\$ 27,289
\$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	13,880
\$261,181 of a \$1,187,187 loan to construct a water tower and finance town hall renovations due in semi-annual installments of \$11,598 including interest through May 7, 2022; interest at 3.92 percent	175,492
\$347,000 loan to finance development of Ocean Front Park due in annual installments ranging from \$35,645 to \$21,308 including interest through July 12, 2028; interest at 4.39 percent	326,588
\$29,836 loan to finance a police car due in annual installments of \$7,868 including interest through June 28, 2017; interest at 2.17 percent	29,836
\$152,152 loan to finance a garbage truck due in annual installments of \$32,103 including interest through September 16, 2016; interest at 1.81 percent	122,803
	<u>\$ 2,149,421</u>

Serviced by the Water and Sewer Fund:

\$432,660 loan to finance the Sewer Rehabilitation Project with 50% principal forgiveness due in annual installments of \$10,556 including interest through May 1, 2030; interest at 0.00 percent	\$ 179,447
\$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	7,870
\$926,006 of a \$1,187,187 loan to construct a water tower and finance town hall renovations due in semi-annual installments of \$41,119 including interest through May 7, 2022; interest at 3.92 percent	618,639
\$29,547 loan to finance a utility truck due in annual installments of \$7,565 including interest through December 30, 2014; interest at 1.50 percent	14,783
	<u>\$ 820,739</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The future minimum payments of the installment purchases as of June 30, 2013:

<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>
2014	\$ 219,128	\$ 86,890	\$ 84,321	\$ 24,170
2015	223,744	78,600	78,873	21,478
2016	207,097	70,175	73,839	18,955
2017	211,568	62,051	76,344	16,450
2018	176,168	53,786	78,948	13,845
2019-2023	663,721	166,339	354,515	27,216
2024-2028	426,578	59,590	52,779	-
2029-2030	21,417	896	21,120	-
Total	<u>\$ 2,149,421</u>	<u>\$ 578,327</u>	<u>\$ 820,739</u>	<u>\$ 122,114</u>

Changes in Long-Term Liabilities

During the year ended June 30, 2013, the following changes occurred in liabilities reported in long-term debt:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Installment purchases	\$ 2,329,849	\$ 29,836	\$ 210,264	\$ 2,149,421
OPEB liability	252,103	83,353	-	335,456
LEO liability	225,742	14,225	-	239,967
Compensated absences	79,749	3,304	-	83,053
Total governmental activity long-term liabilities	<u>\$ 2,887,443</u>	<u>\$ 130,718</u>	<u>\$ 210,264</u>	<u>\$ 2,807,897</u>
Business-Type Activities:				
Installment purchases	\$ 1,072,789	\$ 46,006	\$ 298,056	\$ 820,739
OPEB liability	100,529	27,341	-	127,870
Compensated absences	25,370	2,783	-	28,153
Total business-type long-term liabilities	<u>\$ 1,198,688</u>	<u>\$ 76,130</u>	<u>\$ 298,056</u>	<u>\$ 976,762</u>

Current portion of long-term liabilities at June 30, 2013, consist of \$219,128 and \$84,321 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, 2013, the Town of Kure Beach, North Carolina had a legal debt margin of \$61,713,172.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2013 consist of the following:

<u>Due From</u>	<u>Due to</u>
	<u>General Fund</u>
Capital Project Fund	\$ 1,306
Water and Sewer Fund	34,954
	<u>\$ 36,260</u>

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

D. Fund Balance

At June 30, 2013, the Town's entire amount of unassigned general fund balance is available for appropriation.

E. Cash Flows

At June 30, 2013, the Town's proprietary fund statement of cash flows contained \$216,330 in noncash capital and related financing activities for forgiveness of debt related to satisfaction of Federal requirements in completing a construction project.

F. 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 2 - 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.

NOTE 3 - 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.

NOTE 4 - CLAIMS, JUDGMENTS AND CONTINGENT LIABILITIES

At June 30, 2013, the Town was a defendant in a lawsuit. In the opinion of the Town's management and the Town's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

NOTE 5 - CHANGES IN ACCOUNTING PRINCIPLES

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2013

Exhibit 11

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued 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>
Dec. 31, 2012	\$ -	\$ 164,074	\$ 164,074	0.0%	\$ 582,271	28.2%
Dec. 31, 2011	-	147,637	147,637	0.0%	557,613	26.5%

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
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>
2013	\$ 19,754	14.1%
2012	19,754	14.1%

TOWN OF KURE BEACH, NORTH CAROLINA
Other Post Employment Benefits
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2013

Exhibit 12

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued 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>
Dec. 31, 2012	\$ -	\$1,566,041	\$1,566,041	0.0%	\$1,487,530	105.3%
June 30, 2012	-	996,106	996,106	0.0%	1,425,518	69.9%
June 30, 2011	-	921,317	921,317	0.0%	1,424,561	64.7%

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>
2013	\$ 145,298	23.8%
2012	237,102	9.8%
2011	38,183	32.9%

SUPPLEMENTAL STATEMENTS

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2013

Statement 1
Page 1 of 4

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$ 2,054,900	\$ 2,080,985	\$ 26,085
Penalties and interest	5,000	4,906	(94)
Total	<u>2,059,900</u>	<u>2,085,891</u>	<u>25,991</u>
Other taxes and licenses:			
Motor vehicle licenses	9,000	7,080	(1,920)
Licenses and fees	2,500	4,610	2,110
Total	<u>11,500</u>	<u>11,690</u>	<u>190</u>
Unrestricted intergovernmental:			
Local option sales taxes	486,000	554,554	68,554
ABC revenue	11,700	10,900	(800)
Hold harmless	57,000	73,341	16,341
Utility franchise tax	105,000	82,489	(22,511)
Beer and wine tax	9,000	8,281	(719)
Video programming	42,000	37,593	(4,407)
Telecommunications tax	19,000	17,321	(1,679)
Refunds	23,000	25,010	2,010
Total	<u>752,700</u>	<u>809,489</u>	<u>56,789</u>
Restricted intergovernmental:			
Grants	800	7,334	6,534
Federal asset forfeitures	310,743	310,743	-
Powell Bill allocation	60,000	63,513	3,513
Total	<u>371,543</u>	<u>381,590</u>	<u>10,047</u>
Permits and fees:			
Garbage fees	265,000	276,617	11,617
Building permits	22,500	59,465	36,965
Cable fees	4,500	-	(4,500)
TDA funds	147,674	163,150	15,476
Miscellaneous	2,200	5,896	3,696
Police fees	-	4,617	4,617
Total	<u>441,874</u>	<u>509,745</u>	<u>67,871</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2013

Statement 1
Page 2 of 4

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 100,700	\$ 94,531	\$ (6,169)
Impact fees	233,200	283,060	49,860
Miscellaneous	64,700	88,152	23,452
Total	<u>398,600</u>	<u>465,743</u>	<u>67,143</u>
Investment earnings	2,450	2,227	(223)
Total Revenues	<u>4,038,567</u>	<u>4,266,375</u>	<u>227,808</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits	7,270	7,267	3
Operating expense	33,800	32,490	1,310
Total	<u>41,070</u>	<u>39,757</u>	<u>1,313</u>
Administration:			
Salaries and benefits	138,865	139,502	(637)
Operating expense	597,660	487,100	110,560
Total	<u>736,525</u>	<u>626,602</u>	<u>109,923</u>
Total general government	<u>777,595</u>	<u>666,359</u>	<u>111,236</u>
Pubic Safety:			
Police:			
Salaries and benefits	895,788	844,867	50,921
Operating expense	398,546	184,037	214,509
Capital outlay	80,697	69,195	11,502
Total	<u>1,375,031</u>	<u>1,098,099</u>	<u>276,932</u>
Fire:			
Salaries and benefits	205,697	199,219	6,478
Operating expense	59,500	52,815	6,685
Capital outlay	10,000	5,000	5,000
Total	<u>275,197</u>	<u>257,034</u>	<u>18,163</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2013

Statement 1
Page 3 of 4

	Budget	Actual	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 124,874	\$ 125,854	\$ (980)
Operating expense	22,800	20,232	2,568
Total	<u>147,674</u>	<u>146,086</u>	<u>1,588</u>
Building Inspection:			
Salaries and benefits	86,096	86,444	(348)
Operating expense	24,150	19,106	5,044
Total	<u>110,246</u>	<u>105,550</u>	<u>4,696</u>
Total public safety	<u>1,908,148</u>	<u>1,606,769</u>	<u>301,379</u>
Transportation:			
Operating expense	60,000	21,731	38,269
Total transportation	<u>60,000</u>	<u>21,731</u>	<u>38,269</u>
Special projects:			
Parks and recreation	33,071	20,408	12,663
Street festival	11,000	10,599	401
Community center	13,000	10,198	2,802
Other	600	11	589
Capital outlay	13,000	15,666	(2,666)
Total special projects	<u>70,671</u>	<u>56,882</u>	<u>13,789</u>
Environmental protection:			
Salaries and benefits	492,369	423,854	68,515
Operating expense	312,650	299,397	13,253
Capital outlay	98,794	-	98,794
Total environmental protection	<u>903,813</u>	<u>723,251</u>	<u>180,562</u>
Debt service:			
Principal	207,640	207,688	(48)
Interest	94,200	94,136	64
Total debt service	<u>301,840</u>	<u>301,824</u>	<u>16</u>
Total expenditures	<u>4,022,067</u>	<u>3,376,816</u>	<u>645,251</u>
Revenue over expenditures	<u>16,500</u>	<u>889,559</u>	<u>873,059</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
General Fund (Continued)
For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Proceeds from installment purchases	\$ 32,000	\$ 29,836	\$ (2,164)
Transfers to other funds	(58,500)	(58,440)	60
Total other financing sources (uses)	<u>(26,500)</u>	<u>(28,604)</u>	<u>(2,104)</u>
Fund balance appropriated	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Net change in fund balance	<u>\$ -</u>	860,955	<u>\$ 860,955</u>
Fund balances, beginning		<u>2,229,209</u>	
Fund balances, ending		<u>\$ 3,090,164</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, 2013

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Federal and State Grants	\$ 849,000	\$ 111,248	\$ 840,762	\$ 952,010
Interest earnings	-	298	30	328
Total revenues	<u>849,000</u>	<u>111,546</u>	<u>840,792</u>	<u>952,338</u>
Expenditures:				
Capital projects:				
Construction and Landscaping	700,000	212,810	545,946	758,756
Infrastructure (streets, boardwalk, utilites, etc.)	480,000	-	467,540	467,540
Design, Engineering and Grant Administration	151,000	98,832	32,785	131,617
Total expenditures	<u>1,331,000</u>	<u>311,642</u>	<u>1,046,271</u>	<u>1,357,913</u>
Revenues over (under) expenditures	<u>(482,000)</u>	<u>(200,096)</u>	<u>(205,479)</u>	<u>(405,575)</u>
Other financing sources (uses):				
Installment sale proceeds	482,000	347,000	-	347,000
Transfers in	-	135	58,440	58,575
Total other financing sources	<u>482,000</u>	<u>347,135</u>	<u>58,440</u>	<u>405,575</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 147,039</u>	(147,039)	<u>\$ -</u>
Fund balances, beginning			<u>147,039</u>	
Fund balances, ending			<u>\$ -</u>	

TOWN OF KURE BEACH, NORTH CAROLINA

Statement 3

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	\$ 1,675,150	\$ 1,559,787	\$ (115,363)
Water and sewer tap fees	20,000	63,000	43,000
Other user fees	11,500	44,420	32,920
Other operating revenues	5,250	6,514	1,264
Total	<u>1,711,900</u>	<u>1,673,721</u>	<u>(38,179)</u>
Non-operating revenues			
Interest earnings	<u>1,825</u>	<u>1,880</u>	<u>55</u>
Total revenues	<u>1,713,725</u>	<u>1,675,601</u>	<u>(38,124)</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	175,833	177,517	(1,684)
Salaries and benefits - OPS	313,809	332,558	(18,749)
Utilities	55,500	55,310	190
Supplies	85,000	85,537	(537)
Repairs and maintenance	120,400	119,485	915
Treatment facility charges	300,000	305,311	(5,311)
Operating expenditures	268,095	204,042	64,053
Capital outlay	283,978	18,197	265,781
Total	<u>1,602,615</u>	<u>1,297,957</u>	<u>304,658</u>
Debt service:			
Interest and fees	26,770	26,765	5
Principal retirement	84,340	81,726	2,614
Total	<u>111,110</u>	<u>108,491</u>	<u>2,619</u>
Total expenditures	<u>1,713,725</u>	<u>1,406,448</u>	<u>307,277</u>
Revenues over expenditures	-	269,153	269,153
Other financing sources (uses):			
Grants	-	216,330	216,330
Installment purchase proceeds	-	46,006	46,006
Total other financing sources	<u>-</u>	<u>262,336</u>	<u>262,336</u>

(Continued)

TOWN OF KURE BEACH, NORTH CAROLINA**Statement 3****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>	Variance Positive (Negative)
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>531,489</u>	<u>\$ 531,489</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		18,197	
Depreciation		(200,835)	
Installment purchase proceeds		(46,006)	
Principal retirement		298,056	
Capital contributions		(216,330)	
Change in OPEB and compensated absences		(30,124)	
Total reconciling items		<u>(177,042)</u>	
Change in net position		<u>\$ 354,447</u>	

OTHER SCHEDULES

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 1

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2013

Fiscal Year	Uncollected Balance June 30, 2012	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2013
2012-2013	\$ -	\$ 2,081,163	\$ 2,065,545	\$ 15,618
2011-2012	13,256	-	12,179	1,077
2010-2011	1,254	-	492	762
2009-2010	1,558	-	1,056	502
2008-2009	829	-	75	754
2007-2008	1,019	-	58	961
2006-2007	1,732	-	71	1,661
2005-2006	1,370	-	-	1,370
2004-2005	1,025	-	49	976
2003-2004	953	-	63	890
2002-2003	522	-	522	-
Total	\$ 23,518	\$ 2,081,163	\$ 2,080,110	\$ 24,571

Ad valorem taxes receivable - net \$ 24,571

Reconciliation with revenues:

Ad valorem taxes - general fund	2,085,891
Reconciling items:	
Write offs, collection fees, and discounts	4,906
Miscellaneous adjustments	(10,393)
Interest collected	(294)
	\$ 2,080,110

TOWN OF KURE BEACH, NORTH CAROLINA

Schedule 2

Analysis of Current Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2013

	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	\$ 781,711	0.2615	\$ 2,044,173	\$ 2,044,173	\$ -
Registered motor vehicles at prior year rates	17,572	0.2615	45,952	-	45,952
Total	<u>799,283</u>		<u>2,090,125</u>	<u>2,044,173</u>	<u>45,952</u>
Discoveries:					
Current year taxes	<u>203</u>	0.2615	<u>530</u>	<u>530</u>	<u>-</u>
Abatements:					
Current year taxes	<u>(3,630)</u>	0.2615	<u>(9,492)</u>	<u>(9,492)</u>	<u>-</u>
Total property value	<u>\$ 795,856</u>				
Net levy			<u>2,081,163</u>	<u>2,035,211</u>	<u>45,952</u>
Uncollected taxes at June 30, 2013			<u>15,618</u>	<u>5,598</u>	<u>10,020</u>
Current year's taxes collected			<u>\$ 2,065,545</u>	<u>\$ 2,029,613</u>	<u>\$ 35,932</u>
Current levy collection percentage			<u>99.25%</u>	<u>99.72%</u>	<u>78.19%</u>

OTHER REPORTING

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the aggregated remaining fund information of the Town of Kure Beach, North Carolina (the "Town") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 13, 2013

**Independent Auditor's Report On Compliance for Each Major
State Program; Report on Internal Control Over Compliance;
in Accordance with OMB Circular A-133; and the State Single
Audit Implementation Act**

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

Report on Compliance for Each Major State Program

We have audited the Town of Kure Beach, North Carolina's, (the "Town") compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town's major state programs for the year ended June 30, 2013. The Town's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in the applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major State Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 13, 2013

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2013

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Grants:					
Cash Assistance:					
<u>U.S. Department of Justice -</u>					
<u>Justice Management Division</u>					
Direct Program:					
Federal Drug Forfeiture Program	16.000	-	\$ 94,653	\$ -	\$ -
<u>U.S. Environmental Protection</u>					
<u>Agency:</u>					
Passed-through N.C. Clean Water Management Trust Fund:					
ARRA-Capitalization Grants for Clean Water					
State Revolving Funds	66.458	-	<u>175,185</u>	<u>-</u>	<u>-</u>
Total assistance - federal program			<u>269,838</u>	<u>-</u>	<u>-</u>
State Grants:					
Cash Assistance:					
<u>N.C. Department of Environment</u>					
<u>and Natural Resources:</u>					
N.C. Parks and Recreation					
Trust Fund	-	2637	-	362,620	-
Public Beach & Coastal Waterfront Access Program	-	3131	-	199,955	-
<u>N.C. Department of</u>					
<u>Transportation:</u>					
Powell Bill	-	-	<u>-</u>	<u>21,731</u>	<u>-</u>
Total assistance - state program			<u>-</u>	<u>584,306</u>	<u>-</u>
Total assistance			<u>\$ 269,838</u>	<u>\$ 584,306</u>	<u>\$ -</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to the Schedule of Expenditures of Federal and State Awards
For Fiscal Year Ended June 30, 2013

The schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Kure Beach, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Loan Outstanding

The Town of Kure Beach, North Carolina's ARRA-Capitalization Grants for State Revolving Funds had an outstanding loan balance of \$179,447 at June 30, 2013. This loan balance also included the \$175,185 included in the federal expenditures presented in the schedule.

TOWN OF KURE BEACH, NORTH CAROLINA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant Deficiency(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted yes no

State Awards

Internal control over major State programs:

- Material weakness(es) identified? yes no
- Significant Deficiency(s) identified that are not considered to be material weaknesses yes none reported

Type of auditor's report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act yes no

Identification of major State programs:

Program Name:

- N.C. Parks and Recreation Trust Fund
- Public Beach & Coastal Waterfront Access Program

Section II – Financial Statement Findings

None reported.

Section III – State Award Findings and Questioned Costs

None reported.