

TOWN OF KURE BEACH, NORTH CAROLINA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012



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

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, 2012, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town of Kure Beach, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2012 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* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 11; 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 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 general accepted in the United State 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 statement, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Kure Beach, North Carolina's basic financial statements. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The budgetary and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary schedules and other schedules are stated in all material respects in relation to the basic financial statements as a whole.

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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

Financial Highlights

- The assets of the Town of Kure Beach, North Carolina exceeded its liabilities at the close of the fiscal year by \$10,611,981 (net assets).
- The government's total net assets increased by \$320,215.
- As of the close of the current fiscal year, the Town of Kure Beach, North Carolina's total governmental funds reported combined ending fund balances of \$2,376,248 with a net change of \$758,188 in fund balance. Approximately 21.6% of this total amount or \$513,064 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,092,652, or 33.4% of total General Fund expenditures for the fiscal year. The combined unassigned, assigned and committed fund balance for the General Fund was \$1,716,145, or 52.5% of total General Fund expenditures for the fiscal year.
- The Town of Kure Beach, North Carolina's governmental activities capital assets (net of accumulated depreciation) increased by \$205,470 during the current fiscal year. The key factors in this increase were due to the construction of the Town's Ocean Front Park, which will be completed during the fiscal year ended June 30, 2013 and the purchase of a new garbage truck in the amount of \$152,152.
- The Town of Kure Beach, North Carolina's total long-term liabilities increased by \$667,156 during the current fiscal year. The key factor in this increase were from obtaining two installment purchase notes in the amount of \$347,000 for the development and construction of the Ocean Front Park and the purchase of a new garbage truck (noted above); and the annual increase of other postemployment benefits for retiree health benefits in the amount of \$213,974, along with the first year recording of the Town's law enforcement officers special separation allowance of \$225,742.
- An increase in the tax rate and the increase in service fees for stormwater were the major contributors to the \$380,819 (11.4%) increase in the Town of Kure Beach, North Carolina's governmental activities revenues for 2012.
- The increase in governmental activities revenues help offset some of the \$536,568 (18.5%) increase in governmental activities expenses for 2012. The annual increase in other postemployment benefits and the recording of the Town's law enforcement officers special separation allowance (noted above) were the major contributors to this increase.

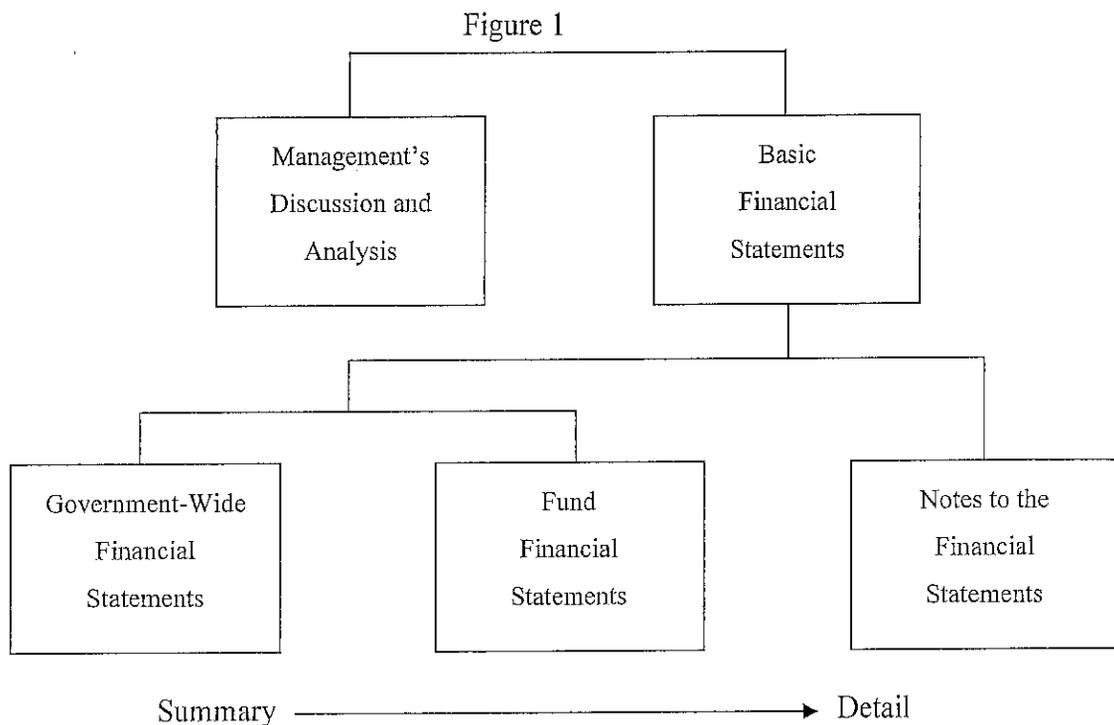
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

Overview of the Financial Statements

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

Required Components of Annual Financial Report



Basic Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The Town of Kure Beach, North Carolina adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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

Figure 2

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 2,498,541	\$ 1,746,550	\$ 1,332,559	\$ 1,108,044	\$ 3,831,100	\$ 2,854,594
Capital assets	5,219,707	5,014,237	5,809,167	5,972,864	11,028,874	10,987,101
Total assets	<u>7,718,248</u>	<u>6,760,787</u>	<u>7,141,726</u>	<u>7,080,908</u>	<u>14,859,974</u>	<u>13,841,695</u>
Liabilities:						
Long-term liabilities	2,887,443	2,221,631	1,198,688	1,197,344	4,086,131	3,418,975
Other liabilities	98,775	99,218	63,087	31,736	161,862	130,954
Total liabilities	<u>2,986,218</u>	<u>2,320,849</u>	<u>1,261,775</u>	<u>1,229,080</u>	<u>4,247,993</u>	<u>3,549,929</u>
Net Assets:						
Invested in capital assets, net of related debt	2,889,858	2,961,626	4,736,378	4,835,274	7,626,236	7,796,900
Restricted	513,064	492,243	-	-	513,064	492,243
Unrestricted	1,329,108	986,069	1,143,573	1,016,554	2,472,681	2,002,623
Total net assets	<u>\$ 4,732,030</u>	<u>\$ 4,439,938</u>	<u>\$ 5,879,951</u>	<u>\$ 5,851,828</u>	<u>\$ 10,611,981</u>	<u>\$ 10,291,766</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Kure Beach, North Carolina exceeded liabilities by \$10,611,981 as of June 30, 2012. The Town's net assets for governmental activities and business-type activities were \$4,732,030 and \$5,879,951, respectively, for the fiscal year ended June 30, 2012. However, the largest portion, \$7,626,236, reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Kure Beach, North Carolina uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Kure Beach, North Carolina's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Kure Beach, North Carolina's net assets of \$513,064 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,472,681 is unrestricted.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.69%.
- Increased reimbursement from the New Hanover County Tourism Development Authority of approximately \$156,728 for tourism-related activities.

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

Figure 3

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 775,587	\$ 605,097	\$ 1,529,218	\$ 1,546,817	\$ 2,304,805	\$ 2,151,914
Operating grants and contributions	218,236	328,056	-	-	218,236	328,056
Capital grants and contributions	93,773	139,083	-	44,270	93,773	183,353
General revenues:						
Property taxes	1,927,337	1,606,992	-	-	1,927,337	1,606,992
Other taxes	468,896	434,860	-	-	468,896	434,860
Grants and contributions not restricted to specific programs	248,604	236,365	-	-	248,604	236,365
Other	2,625	3,786	1,928	655	4,553	4,441
Total revenues	<u>3,735,058</u>	<u>3,354,239</u>	<u>1,531,146</u>	<u>1,591,742</u>	<u>5,266,204</u>	<u>4,945,981</u>
Expenses:						
General government	433,908	324,532	-	-	433,908	324,532
Public safety	1,882,752	1,441,195	-	-	1,882,752	1,441,195
Highways/streets	30,130	78,489	-	-	30,130	78,489
Environmental Protection	964,231	912,147	-	-	964,231	912,147
Interest on long-term debt	87,774	92,656	-	-	87,774	92,656
Water and sewer	-	-	1,503,023	1,439,623	1,503,023	1,439,623
Other	44,171	57,379	-	-	44,171	57,379
Total expenses	<u>3,442,966</u>	<u>2,906,398</u>	<u>1,503,023</u>	<u>1,439,623</u>	<u>4,945,989</u>	<u>4,346,021</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Increase in net assets	\$ 292,092	\$ 447,841	\$ 28,123	\$ 152,119	\$ 320,215	\$ 599,960
Net assets, July 1,	4,439,938	3,992,097	5,851,828	5,699,709	10,291,766	9,691,806
Net assets, June 30,	<u>\$ 4,732,030</u>	<u>\$ 4,439,938</u>	<u>\$ 5,879,951</u>	<u>\$ 5,851,828</u>	<u>\$ 10,611,981</u>	<u>\$ 10,291,766</u>

Governmental Activities - Governmental activities increased the Town's net assets by \$292,092. The key elements of this increase are as follows:

- Tourism to the Town has continued to increase.
- Tax revenues increased as a result of an increase to the tax rate.
- Increased reimbursement for tourism-related activities from the New Hanover County Tourism Development Authority.

Business-Type Activities - Business-type activities of the Town reported \$5,879,951 in net assets, an increase of \$28,123. The key element of this increase was an increase to the monthly minimum charge for water and sewer services.

Financial Analysis of the Town's Funds

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

Governmental Funds - The focus of the Town of Kure Beach, North Carolina's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Kure Beach, North Carolina's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Kure Beach, North Carolina. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,092,652, while the total fund balance reached \$2,229,209. 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 33.4% of total General Fund expenditures, while total fund balance is 68.2% of total General Fund expenditures.

At June 30, 2012, the governmental funds of the Town of Kure Beach, North Carolina reported a fund balance of \$2,376,248.

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, 2012

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

Proprietary Fund - The Town's proprietary fund provides the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,143,573. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital Assets - The Town of Kure Beach, North Carolina's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$11,028,874 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

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

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

Town of Kure Beach, North Carolina's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
	2012	2011	2012	2011	2012	2011
Land	\$ 3,804,111	\$ 3,804,111	\$ 20,697	\$ 20,697	\$ 3,824,808	\$ 3,824,808
Building	42,980	50,006	114,993	119,269	157,973	169,275
Equipment and vehicles	346,434	339,272	79,353	76,258	425,787	415,530
Improvements other than buildings	483,733	486,563	-	-	483,733	486,563
Plant and Distribution Systems	-	-	5,594,124	5,756,640	5,594,124	5,756,640
Infrastructure	230,941	235,588	-	-	230,941	235,588
Construction in progress	311,508	98,697	-	-	311,508	98,697
Total	<u>\$ 5,219,707</u>	<u>\$ 5,014,237</u>	<u>\$ 5,809,167</u>	<u>\$ 5,972,864</u>	<u>\$ 11,028,874</u>	<u>\$ 10,987,101</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, 2012, the Town of Kure Beach, North Carolina had total debt outstanding of \$3,402,638. Installment debt for governmental type activities and business-type activities were \$2,329,849 and \$1,072,789, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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

Economic Factors and Next Year's Budgets and Rates

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

- Tourism to the Town has continued to increase.
- The Town approved a \$3,374,374 general fund budget for fiscal year 2012-2013. This budget represents a 0.67% increase from the fiscal year 2011-2012 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

Exhibit 1

Statement of Net Assets

June 30, 2012

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,987,289	\$ 1,139,525	\$ 3,126,814
Investments	55,867	-	55,867
Receivables, net	218,755	225,348	444,103
Internal balances	32,314	(32,314)	-
Restricted cash and cash equivalents	204,316	-	204,316
Total current assets	<u>2,498,541</u>	<u>1,332,559</u>	<u>3,831,100</u>
Non-current assets:			
Land, non-depreciable improvements, and construction in progress	4,115,619	20,697	4,136,316
Other capital assets, net of depreciation	1,104,088	5,788,470	6,892,558
Total capital assets	<u>5,219,707</u>	<u>5,809,167</u>	<u>11,028,874</u>
Total assets	<u>\$ 7,718,248</u>	<u>\$ 7,141,726</u>	<u>\$ 14,859,974</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	\$ 98,775	\$ 56,607	\$ 155,382
Customer deposits	-	6,480	6,480
Current portion of long-term liabilities	207,630	84,334	291,964
Total current liabilities	<u>306,405</u>	<u>147,421</u>	<u>453,826</u>
Long-term liabilities:			
Due in more than one year	2,679,813	1,114,354	3,794,167
Total liabilities	<u>2,986,218</u>	<u>1,261,775</u>	<u>4,247,993</u>
Net Assets			
Invested in capital assets, net of related debt	2,889,858	4,736,378	7,626,236
Restricted for:			
Stabilization by State Statute	308,773	-	308,773
Streets	178,770	-	178,770
Federal Asset Forfeitures	15,521	-	15,521
Other functions	10,000	-	10,000
Unrestricted	1,329,108	1,143,573	2,472,681
Total net assets	<u>\$ 4,732,030</u>	<u>\$ 5,879,951</u>	<u>\$ 10,611,981</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, 2012

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 433,908	\$ 396,513	\$ -	\$ -
Public safety	1,882,752	36,601	156,728	-
Transportation	30,130	-	61,508	-
Special projects	44,171	42,578	-	93,773
Environmental protection	964,231	299,895	-	-
Interest on long-term debt	87,774	-	-	-
Total governmental activities	<u>3,442,966</u>	<u>775,587</u>	<u>218,236</u>	<u>93,773</u>
Business-type activities:				
Water and sewer	<u>1,503,023</u>	<u>1,529,218</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,503,023</u>	<u>1,529,218</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 4,945,989</u>	<u>\$ 2,304,805</u>	<u>\$ 218,236</u>	<u>\$ 93,773</u>

General Revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes and licenses

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Total general revenues, special items, and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Exhibit 2

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

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (37,395)	\$ -	\$ (37,395)
(1,689,423)	-	(1,689,423)
31,378	-	31,378
92,180	-	92,180
(664,336)	-	(664,336)
(87,774)	-	(87,774)
<u>(2,355,370)</u>	<u>-</u>	<u>(2,355,370)</u>
-	26,195	26,195
-	26,195	26,195
<u>(2,355,370)</u>	<u>26,195</u>	<u>(2,329,175)</u>
1,927,337	-	1,927,337
452,514	-	452,514
16,382	-	16,382
248,604	-	248,604
2,625	1,928	4,553
<u>2,647,462</u>	<u>1,928</u>	<u>2,649,390</u>
292,092	28,123	320,215
<u>4,439,938</u>	<u>5,851,828</u>	<u>10,291,766</u>
<u>\$ 4,732,030</u>	<u>\$ 5,879,951</u>	<u>\$ 10,611,981</u>

Balance Sheet
Governmental Funds
June 30, 2012

	<u>Major Funds</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
Assets			
Cash and cash equivalents	\$ 1,759,028	\$ 228,261	\$ 1,987,289
Investments	55,867	-	55,867
Restricted cash	204,316	-	204,316
Taxes receivable, net	23,518	-	23,518
Account receivables, net	195,237	-	195,237
Due from other funds	113,536	-	113,536
Total assets	<u>\$ 2,351,502</u>	<u>\$ 228,261</u>	<u>\$ 2,579,763</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 98,775	\$ -	\$ 98,775
Due to other funds	-	81,222	81,222
Deferred revenue	23,518	-	23,518
Total liabilities	<u>122,293</u>	<u>81,222</u>	<u>203,515</u>
Fund Balances:			
Restricted for:			
Streets	178,770	-	178,770
State statute	308,773	-	308,773
Federal asset forfeitures	15,521	-	15,521
Other functions	10,000	-	10,000
Committed - Carolina Beach Inlet dredging	15,000	-	15,000
Assigned:			
Storm Water	608,493	-	608,493
Capital projects	-	147,039	147,039
Unassigned	1,092,652	-	1,092,652
Total fund balances	<u>2,229,209</u>	<u>147,039</u>	<u>2,376,248</u>
Total liabilities and fund balances	<u>\$ 2,351,502</u>	<u>\$ 228,261</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	5,219,707
Liabilities for earned but deferred revenues in fund statements	23,518
Liabilities owed from governmental activities are not due and payable in the current period and therefore are not reported in the funds	(2,887,443)
Net assets of governmental activities	<u>\$ 4,732,030</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

Exhibit 4

	Major Funds		Total Governmental Funds
	General Fund	Capital Projects Fund	
Revenues			
Ad valorem taxes	\$ 1,933,091	\$ -	\$ 1,933,091
Other taxes and licenses	16,382	-	16,382
Unrestricted intergovernmental	701,118	-	701,118
Restricted intergovernmental	136,937	93,773	230,710
Permits and fees	469,963	-	469,963
Sales and services	386,923	-	386,923
Investment earnings	2,327	298	2,625
Total revenues	<u>3,646,741</u>	<u>94,071</u>	<u>3,740,812</u>
Expenditures			
Current:			
General government	408,992	-	408,992
Public safety	1,439,406	-	1,439,406
Transportation	30,130	-	30,130
Special projects	34,921	-	34,921
Environmental protection	860,864	-	860,864
Debt service	309,688	-	309,688
Capital outlay	184,965	212,810	397,775
Total expenditures	<u>3,268,966</u>	<u>212,810</u>	<u>3,481,776</u>
Excess (deficiency) of revenues over expenditures	<u>377,775</u>	<u>(118,739)</u>	<u>259,036</u>
Other Financing Sources (Uses)			
Installment purchase obligations issued	152,152	347,000	499,152
Total other financing sources (uses)	<u>152,152</u>	<u>347,000</u>	<u>499,152</u>
Net change in fund balances	<u>529,927</u>	<u>228,261</u>	<u>758,188</u>
Fund balances (deficit), beginning	<u>1,699,282</u>	<u>(81,222)</u>	<u>1,618,060</u>
Fund balances, ending	<u>\$ 2,229,209</u>	<u>\$ 147,039</u>	<u>\$ 2,376,248</u>

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

TOWN OF KURE BEACH, NORTH CAROLINA
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, 2012

Exhibit 5

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

Net change in fund balances - total governmental funds \$ 758,188

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. 205,470

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.
Change in deferred revenue for tax revenues (5,754)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	(12,088)
Net pension obligation	(225,742)
Other postemployment benefits	(150,744)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (277,238)

Total changes in net assets of governmental activities \$ 292,092

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Annual Budget and Actual - General Fund
Year Ended June 30, 2012

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad valorem taxes	\$ 1,858,374	\$ 1,898,574	\$ 1,933,091	\$ 34,517
Other taxes and licenses	8,000	8,000	16,382	8,382
Unrestricted intergovernmental	655,000	671,945	701,118	29,173
Restricted intergovernmental	77,000	101,115	136,937	35,822
Permits and fees	435,954	435,954	469,963	34,009
Sales and services	344,570	345,579	386,923	41,344
Investment earnings	3,075	3,075	2,327	(748)
Total revenues	<u>3,381,973</u>	<u>3,464,242</u>	<u>3,646,741</u>	<u>182,499</u>
Expenditures				
Current:				
General government	446,604	545,569	408,992	136,577
Public safety	1,473,809	1,487,518	1,439,406	48,112
Transportation	60,000	60,000	30,130	29,870
Special projects	36,900	36,900	34,921	1,979
Environmental protection	868,430	876,755	860,864	15,891
Debt service	369,717	320,197	309,688	10,509
Capital outlay	306,513	317,303	184,965	132,338
Total expenditures	<u>3,561,973</u>	<u>3,644,242</u>	<u>3,268,966</u>	<u>375,276</u>
Revenues over (under) expenditures	<u>(180,000)</u>	<u>(180,000)</u>	<u>377,775</u>	<u>557,775</u>
Other Financing Sources (Uses)				
Proceeds from installment purchases	<u>180,000</u>	<u>180,000</u>	<u>152,152</u>	<u>(27,848)</u>
Total other financing sources (uses)	<u>180,000</u>	<u>180,000</u>	<u>152,152</u>	<u>(27,848)</u>
Net changes in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>529,927</u>	<u>\$ 529,927</u>
Fund balances, beginning			<u>1,699,282</u>	
Fund balances, ending			<u>\$ 2,229,209</u>	

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Net Assets
Proprietary Fund
June 30, 2012

Exhibit 7

	Major Enterprise Fund
	<u>Water and Sewer Fund</u>
Assets	
Current assets:	
Cash and equivalents	\$ 1,139,525
Account receivables, net	225,348
Total current assets	<u>1,364,873</u>
Capital assets, net	5,809,167
Total assets	<u>\$ 7,174,040</u>
Liabilities	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 56,607
Due to other funds	32,314
Customer deposits	6,480
Current portion of long-term debt	84,334
Total current liabilities	<u>179,735</u>
Noncurrent liabilities:	
Compensated absences	25,370
Other postemployment benefits payable	100,529
Non-current portion of long-term debt	988,455
Total liabilities	<u>1,294,089</u>
Net Assets	
Invested in capital assets, net of related debt	4,736,378
Unrestricted	1,143,573
Total net assets	<u>\$ 5,879,951</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year Ended June 30, 2012

Exhibit 8

	Major Enterprise Fund
	<u>Water and Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 1,518,200
Other operating revenues	11,018
Total operating revenues	<u>1,529,218</u>
Operating expenses:	
Administration	275,943
Water and sewer system operations	994,554
Depreciation	203,186
Total operating expenses	<u>1,473,683</u>
Operating income	<u>55,535</u>
Non-operating revenues (expenses):	
Investment earnings	1,928
Interest and fees	(29,340)
Total non-operating revenues (expenses)	<u>(27,412)</u>
Change in net assets	28,123
Total net assets, beginning - restated	<u>5,851,828</u>
Total net assets, ending	<u>\$ 5,879,951</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2012

Exhibit 9

	Major Enterprise Fund
	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 1,507,511
Cash paid for goods and services	(710,188)
Cash paid to employees for services	(462,813)
Net cash provided by operating activities	<u>334,510</u>
Cash flows from noncapital financing activities	
Repayment of advances from other funds	<u>(18,810)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(39,489)
Proceeds from installment purchases	29,547
Principal paid on installment purchases	(94,348)
Interest and fees paid on installment purchases	(29,340)
Net cash used in capital and related financing activities	<u>(133,630)</u>
Cash flows from investing activities:	
Proceeds from maturities of investments	<u>670,638</u>
Net increase in cash and cash equivalents	852,708
Balances, beginning	286,817
Balances, ending	<u>\$ 1,139,525</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	<u>\$ 55,535</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	203,186
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(21,707)
Increase (decrease) in:	
Accounts payable and accrued liabilities	31,351
Compensated absences	2,915
Other postemployment benefits payable	63,230
Total adjustments	<u>278,975</u>
Net cash provided by operating activities	<u>\$ 334,510</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Basis of Presentation

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

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

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

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

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

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

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

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

at any one time; amounts within departments and of the same fund and reported as part of the financial statements and shall make an official report immediately to Town Council on such transfers; and may not transfer amounts between funds without prior Town Council action.

Assets, Liabilities, and Fund Equity

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by the State law (G.S. 159-31). The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit. State law (G.S. 159-30(c)) authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust ("NCCMT"). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash recorded in the Governmental Fund and General Fund represents unexpended Powell Bill 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, 2011. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Capitalization cost for the Town's assets are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

Net Assets/Fund Balances

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of 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 Oceanfront Park.

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

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 and capital projects 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 and various capital projects of the Town.

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, 2012, the Town's deposits had a carrying amount of \$3,331,130 and a bank balance of \$3,142,323. Of the bank balance, \$2,632,974 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method.

Investments

At June 30, 2012, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Cash Portfolio	\$ 5,811	N/A	AAAm
NC Capital Management Trust - Term Portfolio	<u>50,056</u>	0.2 years	Unrated
	<u>\$ 55,867</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, 2012. 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 Assets are net of allowances for doubtful accounts, if any.

	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from other Governments</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 46,615	\$ 23,518	\$ 148,622	\$ 218,755
Total Governmental Activities	<u>\$ 46,615</u>	<u>\$ 23,518</u>	<u>\$ 148,622</u>	<u>\$ 218,755</u>
Business-Type Activities:				
Water and Sewer Fund	\$ 225,348	\$ -	\$ -	\$ 225,348
Total Business-Type Activities	<u>\$ 225,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 225,348</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, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 3,804,111	\$ -	\$ -	\$ 3,804,111
Construction in progress	98,697	212,811	-	311,508
Total capital assets not being depreciated	<u>3,902,808</u>	<u>212,811</u>	<u>-</u>	<u>4,115,619</u>
Capital assets being depreciated:				
Buildings	545,627	-	-	545,627
Equipment and vehicles	2,831,380	157,248	-	2,988,628
Improvements	544,224	16,284	-	560,508
Infrastructure	442,144	11,432	-	453,576
Total capital assets being depreciated	<u>4,363,375</u>	<u>184,964</u>	<u>-</u>	<u>4,548,339</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Less accumulated depreciation for:				
Buildings	\$ 495,621	\$ 7,026	\$ -	\$ 502,647
Equipment and vehicles	2,492,108	150,086	-	2,642,194
Improvements	57,661	19,114	-	76,775
Infrastructure	206,556	16,079	-	222,635
Total accumulated depreciation	<u>3,251,946</u>	<u>192,305</u>	<u>-</u>	<u>3,444,251</u>
Total capital assets being depreciated, net	<u>1,111,429</u>			<u>1,104,088</u>
Government activity capital assets, net	<u>\$ 5,014,237</u>			<u>\$ 5,219,707</u>
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 20,697	\$ -	\$ -	\$ 20,697
Total capital assets not being depreciated	<u>20,697</u>	<u>-</u>	<u>-</u>	<u>20,697</u>
Capital assets being depreciated:				
Plant and Distribution Systems	8,373,302	5,000	-	8,378,302
Buildings	171,029	-	-	171,029
Equipment and vehicles	453,588	34,489	-	488,077
Total capital assets being depreciated	<u>8,997,919</u>	<u>39,489</u>	<u>-</u>	<u>9,037,408</u>
Less accumulated depreciation for:				
Plant and Distribution Systems	2,616,662	167,516	-	2,784,178
Buildings	51,760	4,276	-	56,036
Equipment and vehicles	377,330	31,394	-	408,724
Total accumulated depreciation	<u>3,045,752</u>	<u>203,186</u>	<u>-</u>	<u>3,248,938</u>
Total capital assets being depreciated, net	<u>5,952,167</u>			<u>5,788,470</u>
Water and Sewer activity capital assets, net	<u>\$ 5,972,864</u>			<u>\$ 5,809,167</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	\$ 13,192
Public Safety	107,383
Environmental Protection	62,480
Cultural and Recreational	9,250
Total depreciation expense	<u>\$ 192,305</u>

Construction Commitments

The government has one active construction project as of June 30, 2012. At year end, the Town's only commitment with contractors related to the Ocean Front Park project had a remaining commitment of \$849,828, and \$176,875 was spent to date for that contract.

B. Liabilities

Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description: The Town of Kure Beach, 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 six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.09% and 7.05%, 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, 2012, 2011, and 2010 were \$97,336, \$94,377, and \$67,784, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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.

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

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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	10,540
Adjustment to annual required contribution	198,216
Annual pension cost (expense)	<u>228,510</u>
Contributions made	<u>(2,768)</u>
Increase (decrease) in net pension obligation	225,742
Net pension obligation, beginning of year	-
Net pension obligation, end of year	<u><u>\$ 225,742</u></u>

The Town's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation as of June 30, 2012 were as follows:

For Year Ended June 30	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2012	\$ 228,510	1.2%	\$ 225,742

Funded Status and Funding Progress

As of December 31, 2011, 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 \$147,637. The covered payroll (annual payroll of active employees covered by the plan) was \$557,613, and the ratios of the UAAL to the covered payroll was 26.5%.

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

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

plan. Contributions for the year ended June 30, 2012 were \$94,517, which consisted of \$77,017 from the Town and \$17,500 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.

Other Postemployment Benefits (OPEB)

Healthcare Benefits

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

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

Funding Policy: By Town resolution, the Town pays a percentage of the cost of the coverage based upon the number of creditable service years the qualified retirees have under the Town resolution. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made either from the General Fund, which is maintained on the modified accrual basis of accounting or the Water and Sewer Fund, which is maintained on the full accrual basis of accounting depending on which fund the employee worked. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2012, the Town's total contributions were \$23,128.

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

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

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 current year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Annual required contributions	\$ 138,212
Interest on net OPEB obligation	7,159
Adjustment to annual required contribution	91,731
Annual OPEB cost (expense)	<u>237,102</u>
Contributions made	<u>(23,128)</u>
Increase (decrease) in net OPEB obligation	213,974
Net OPEB obligation, beginning of year	<u>138,658</u>
Net OPEB obligation, end of year	<u><u>\$ 352,632</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2012 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 237,102	9.8%	\$ 352,632
2011	38,183	32.9%	138,658
2010	113,034	0.0%	113,034

Funded Status and Funding Progress: As of June 30, 2012, the actuarial accrued liability for benefits was \$996,106, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,425,518, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 69.88%.

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

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

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

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

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

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

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

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 7.50% initially, reduced to an ultimate rate of 5.60% after six years, was used.

Health Insurance premiums - 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

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

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

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4.00% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period ended June 30, 2012, was twenty eight years.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

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-saving 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 Revenues

The balance in deferred revenues at June 30, 2012 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	\$ 1,038,462
\$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	537,313
\$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	40,400
\$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	20,569
\$261,181 of a \$1,187,187 loan to construct a water tower and finance town hall renovation due in semi-annual installments of \$11,598 including interest through May 7, 2022; interest at 3.92 percent	193,953

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

\$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	\$ 347,000
\$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	152,152
	<u>\$ 2,329,849</u>
 <u>Serviced by the Water and Sewer Fund:</u>	
\$386,654 loan to finance the Sewer Rehabilitation Project due in annual installments of \$13,164 including interest through May 1, 2030; interest at 0.00	\$ 360,327
\$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	15,485
\$926,006 of a \$1,187,187 loan to construct a water tower and finance town hall renovation due in semi-annual installments of \$41,119 including interest through May 7, 2022; interest at 3.92 percent	674,957
\$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	22,020
	<u>\$ 1,072,789</u>

The future minimum payments of the installment purchases as of June 30, 2012:

<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>
2013	\$ 207,630	\$ 94,194	\$ 84,334	\$ 26,765
2014	211,918	86,233	86,929	24,170
2015	216,372	78,104	81,489	21,478
2016	199,563	69,841	76,447	18,955
2017	203,848	61,881	78,952	16,450
2018-2022	758,211	197,185	435,947	41,061
2023-2027	426,578	77,960	65,818	-
2028-2030	105,729	5,466	162,873	-
Total	<u>\$ 2,329,849</u>	<u>\$ 670,864</u>	<u>\$ 1,072,789</u>	<u>\$ 148,879</u>

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

Changes in Long-Term Liabilities

During the year ended June 30, 2012, 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	\$ 2,052,611	\$ 499,152	\$ 221,914	\$ 2,329,849
OPEB liability	101,359	150,744	-	252,103
LEO liability	-	225,742	-	225,742
Compensated absences	67,661	12,088	-	79,749
Total governmental activity long-term liabilities	<u>\$ 2,221,631</u>	<u>\$ 887,726</u>	<u>\$ 221,914</u>	<u>\$ 2,887,443</u>
Business-Type Activities:				
Installment purchases	\$ 1,137,590	\$ 29,547	\$ 94,348	\$ 1,072,789
OPEB liability	37,299	63,230	-	100,529
Compensated absences	22,455	2,915	-	25,370
Total business-type long-term liabilities	<u>\$ 1,197,344</u>	<u>\$ 95,692</u>	<u>\$ 94,348</u>	<u>\$ 1,198,688</u>

Current portion of long-term liabilities at June 30, 2012, consist of \$207,630 and \$84,334 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, 2012, the Town of Kure Beach, North Carolina had a legal debt margin of \$92,501,991.

Interfund Balances and Activity

Balances due to/from other funds at June 30, 2012 consist of the following:

<u>Due From</u>	<u>Due to</u>
	<u>General Fund</u>
Capital Project Fund	\$ 81,222
Water and Sewer Fund	32,314
	<u>\$ 113,536</u>

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

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

A. Fund Balance

At June 30, 2012, the Town's entire amount of unassigned general fund balance is available for appropriation.

B. Cash Flows

At June 30, 2012, the Town's proprietary fund statement of cash flows contained \$1,928 in noncash investing activities for investment income reinvested into the principal balance of investments.

C. 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.

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.

D. Reconciliation of government-wide and fund financial statements

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets.

TOWN OF KURE BEACH, NORTH CAROLINA
Notes to Financial Statements

NOTE 2 - DETAIL NOTES ON ALL FUNDS (Continued)

The element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and therefore are not reported in the funds." The details of this \$5,219,707 difference are as follows:

Capital assets at historical costs	\$ 8,663,958
Less: accumulated depreciation	<u>3,444,251</u>
Net adjustment to increase fund balance-total governmental to arrive at net assets - governmental activities	<u>\$ 5,219,707</u>

The element of that reconciliation explains that "liabilities owed from governmental activities are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,887,443 difference are as follows:

Installment purchases debt	\$ (2,329,849)
Net pension obligation	(225,742)
Other postemployment benefits	(252,103)
Compensated absences	<u>(79,749)</u>
Net adjustment to reduce fund balance-total governmental arrive at net assets - governmental activities	<u>\$ (2,887,443)</u>

E. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF KURE BEACH, NORTH CAROLINA
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2012

Exhibit 10

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) Project Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
Dec. 31, 2011	\$ -	\$ 147,637	\$ 147,637	0.0%	\$ 557,613	26.48%

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>
2012	\$ 228,510	1.2%

TOWN OF KURE BEACH, NORTH CAROLINA
Other Post Employment Benefits
Required Supplementary Information
Schedule of Funding Progress
Year Ended June 30, 2012

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>
June 30, 2012	\$ -	\$ 996,106	\$ 996,106	0.0%	\$1,425,518	69.88%
June 30, 2011	-	921,317	921,317	0.0%	1,424,561	64.67%
Dec. 31, 2009	-	692,723	692,723	0.0%	1,569,672	44.13%

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

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 237,102	9.8%
2011	38,183	32.9%
2010	113,034	0.0%

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, 2012

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$ 1,898,574	\$ 1,927,882	\$ 29,308
Penalties and interest	-	5,209	5,209
Total	<u>1,898,574</u>	<u>1,933,091</u>	<u>34,517</u>
Other taxes and licenses:			
Motor vehicle licenses	7,000	12,185	5,185
Licenses and fees	1,000	4,197	3,197
Total	<u>8,000</u>	<u>16,382</u>	<u>8,382</u>
Unrestricted intergovernmental:			
Local option sales taxes	427,000	452,514	25,514
ABC revenue	11,000	10,220	(780)
Hold harmless	53,000	60,196	7,196
Utility franchise tax	96,945	107,690	10,745
Beer and wine tax	3,000	8,752	5,752
Video programming	40,000	39,901	(99)
Telecommunications tax	16,000	18,860	2,860
Refunds	25,000	2,985	(22,015)
Total	<u>671,945</u>	<u>701,118</u>	<u>29,173</u>
Restricted intergovernmental:			
Grants	25,325	44,118	18,793
Federal asset forfeitures	15,790	31,311	15,521
Powell Bill allocation	60,000	61,508	1,508
Total	<u>101,115</u>	<u>136,937</u>	<u>35,822</u>
Permits and fees:			
Garbage fees	257,000	260,339	3,339
Building permits	23,000	38,165	15,165
Cable fees	3,500	4,619	1,119
TDA funds	147,274	156,727	9,453
Miscellaneous	5,180	5,952	772
Police fees	-	4,161	4,161
Total	<u>435,954</u>	<u>469,963</u>	<u>34,009</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, 2012

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rents and concessions	\$ 93,270	\$ 85,788	\$ (7,482)
Impact fees	232,800	267,801	35,001
Miscellaneous	19,509	33,334	13,825
Total	<u>345,579</u>	<u>386,923</u>	<u>41,344</u>
Investment earnings	<u>3,075</u>	<u>2,327</u>	<u>(748)</u>
Total Revenues	<u>3,464,242</u>	<u>3,646,741</u>	<u>182,499</u>
Expenditures:			
General government:			
Governing body:			
Operating expense	31,800	19,256	12,544
Total	<u>31,800</u>	<u>19,256</u>	<u>12,544</u>
Elections:			
Operating expenses	6,000	4,978	1,022
Total	<u>6,000</u>	<u>4,978</u>	<u>1,022</u>
Administration:			
Salaries and benefits	115,734	116,785	(1,051)
Operating expense	392,035	267,973	124,062
Capital outlay	-	4,050	(4,050)
Total	<u>507,769</u>	<u>388,808</u>	<u>118,961</u>
Total general government	<u>545,569</u>	<u>413,042</u>	<u>132,527</u>
Public Safety:			
Police:			
Salaries and benefits	865,150	835,634	29,516
Operating expense	127,459	133,334	(5,875)
Capital outlay	10,790	10,790	-
Total	<u>1,003,399</u>	<u>979,758</u>	<u>23,641</u>
Fire:			
Salaries and benefits	179,596	179,005	591
Operating expense	56,100	48,557	7,543
Capital outlay	10,000	-	10,000
Total	<u>245,696</u>	<u>227,562</u>	<u>18,134</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, 2012

	Budget	Actual	Variance Positive (Negative)
Life guards:			
Salaries and benefits	\$ 130,579	\$ 126,533	\$ 4,046
Operating expense	24,395	21,992	2,403
Total	<u>154,974</u>	<u>148,525</u>	<u>6,449</u>
Building Inspection:			
Salaries and benefits	81,589	81,874	(285)
Operating expense	22,650	12,477	10,173
Total	<u>104,239</u>	<u>94,351</u>	<u>9,888</u>
Total public safety	<u>1,508,308</u>	<u>1,450,196</u>	<u>58,112</u>
Transportation:			
Operating expense	60,000	30,130	29,870
Capital outlay	-	11,432	(11,432)
Total transportation	<u>60,000</u>	<u>41,562</u>	<u>18,438</u>
Special projects:			
Parks and recreation	14,600	24,412	(9,812)
Street festival	8,000	-	8,000
Community center	13,700	10,212	3,488
Other	600	297	303
Capital outlay	24,000	5,495	18,505
Total special projects	<u>60,900</u>	<u>40,416</u>	<u>20,484</u>
Environmental protection:			
Salaries and benefits	479,480	453,955	25,525
Operating expense	397,275	406,909	(9,634)
Capital outlay	272,513	153,198	119,315
Total environmental protection	<u>1,149,268</u>	<u>1,014,062</u>	<u>135,206</u>
Debt service:			
Principal	224,844	224,594	250
Interest	95,353	85,094	10,259
Total debt service	<u>320,197</u>	<u>309,688</u>	<u>10,509</u>
Total expenditures	<u>3,644,242</u>	<u>3,268,966</u>	<u>375,276</u>
Revenue over (under) expenditures	<u>(180,000)</u>	<u>377,775</u>	<u>557,775</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, 2012

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Proceeds from installment purchases	\$ 180,000	\$ 152,152	\$ (27,848)
Total other financing sources (uses)	<u>180,000</u>	<u>152,152</u>	<u>(27,848)</u>
Net change in fund balance	<u>\$ -</u>	<u>529,927</u>	<u>\$ 529,927</u>
Fund balances, beginning		<u>1,699,282</u>	
Fund balances, ending		<u>\$ 2,229,209</u>	

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, 2012

	Project Authorization	Prior Years	Actual Current Year	Total to Date
Revenues:				
Restricted intergovernmental:				
Federal and State Grants	\$ 849,000	\$ 17,475	\$ 93,773	\$ 111,248
Interest earnings	-	-	298	298
Total revenues	<u>849,000</u>	<u>17,475</u>	<u>94,071</u>	<u>111,546</u>
Expenditures:				
Capital projects:				
Construction and Landscaping	700,000	-	212,810	212,810
Infrastructure (streets, boardwalk, utilites, etc.)	480,000	-	-	-
Design, Engineering and Grant Administration	151,000	98,832	-	98,832
Total expenditures	<u>1,331,000</u>	<u>98,832</u>	<u>212,810</u>	<u>311,642</u>
Revenues over (under) expenditures	<u>(482,000)</u>	<u>(81,357)</u>	<u>(118,739)</u>	<u>(200,096)</u>
Other financing sources (uses):				
Installment sale proceeds	482,000	-	347,000	347,000
Transfers in	-	135	-	135
Total other financing sources	<u>482,000</u>	<u>135</u>	<u>347,000</u>	<u>347,135</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (81,222)</u>	228,261	<u>\$ 147,039</u>
Fund balances, beginning			<u>(81,222)</u>	
Fund balances, ending			<u>\$ 147,039</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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Water sales and sewer charges:			
Residential and commercial	\$ 1,445,000	\$ 1,447,220	\$ 2,220
Water and sewer tap fees	23,000	39,000	16,000
Other user fees	500	31,980	31,480
Other operating revenues	6,933	11,018	4,085
Total	<u>1,475,433</u>	<u>1,529,218</u>	<u>53,785</u>
Non-operating revenues			
Interest earnings	650	1,928	1,278
Total revenues	<u>1,476,083</u>	<u>1,531,146</u>	<u>55,063</u>
Expenditures:			
Water and sewer administration and operations:			
Salaries and benefits - admin	174,035	177,478	(3,443)
Salaries and benefits - OPS	298,930	285,335	13,595
Utilities	53,000	56,701	(3,701)
Supplies	84,500	75,917	8,583
Repairs and maintenance	118,683	105,201	13,482
Treatment facility charges	300,000	299,117	883
Operating expenditures	227,907	204,603	23,304
Capital outlay	138,903	39,489	99,414
Total	<u>1,395,958</u>	<u>1,243,841</u>	<u>152,117</u>
Debt service:			
Interest and fees	29,304	29,340	(36)
Principal retirement	86,821	94,348	(7,527)
Total	<u>116,125</u>	<u>123,688</u>	<u>(7,563)</u>
Total expenditures	<u>1,512,083</u>	<u>1,367,529</u>	<u>144,554</u>
Revenues over (under) expenditures	(36,000)	163,617	199,617
Other financing sources (uses):			
Installment purchase proceeds	36,000	29,547	(6,453)
Total other financing sources	<u>36,000</u>	<u>29,547</u>	<u>(6,453)</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>\$ 193,164</u>	<u>\$ 193,164</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 193,164	
Reconciling items:			
Capital outlay		39,489	
Depreciation		(203,186)	
Installment purchase proceeds		(29,547)	
Principal retirement		94,348	
Change in OPEB and compensated absences		(66,145)	
Total reconciling items		<u>(165,041)</u>	
Change in net assets		<u>\$ 28,123</u>	

OTHER SCHEDULES

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2012

Fiscal Year	Uncollected Balance June 30, 2011	Additions	Collections, Credits and Adjustments	Uncollected Balance June 30, 2012
2011-2012	\$ -	\$ 1,926,270	\$ 1,913,014	\$ 13,256
2010-2011	13,156	-	11,902	1,254
2009-2010	4,137	-	2,579	1,558
2008-2009	759	-	(70)	829
2007-2008	1,040	-	21	1,019
2006-2007	1,740	-	8	1,732
2005-2006	1,372	-	2	1,370
2004-2005	1,032	-	7	1,025
2003-2004	1,005	-	52	953
2002-2003	538	-	16	522
2001-2002	505	-	505	-
2001 and prior	3,988	-	3,988	-
Total	\$ 29,272	\$ 1,926,270	\$ 1,932,024	\$ 23,518

Ad valorem taxes receivable - net \$ 23,518

Reconcilement with revenues:

Ad valorem taxes - general fund	1,933,091
Reconciling items:	
Write offs, collection fees, and discounts	30,298
Miscellaneous adjustments	(25,938)
Interest collected	(5,427)
	<u>\$ 1,932,024</u>

Analysis of Current Tax Levy

Town - Wide Levy

For the Fiscal Year Ended June 30, 2012

	Town-wide			Total Levy	
	Property Valuation (in Thousand)	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxes at current year rate	\$ 1,185,760	0.1625	\$ 1,926,859	\$ 1,926,859	\$ -
Registered motor vehicles at prior year rates	18,096	0.1625	29,246	-	29,246
Penalties	-		159	159	-
Total	<u>1,203,856</u>		<u>1,956,264</u>	<u>1,927,018</u>	<u>29,246</u>
Abatements:					
Current year taxes	<u>(18,458)</u>	0.1625	<u>(29,994)</u>	<u>(29,994)</u>	<u>-</u>
Total property value	<u>\$ 1,185,398</u>				
Net levy			<u>1,926,270</u>	<u>1,897,024</u>	<u>29,246</u>
Uncollected taxes at June 30, 2012			<u>13,256</u>	<u>5,844</u>	<u>7,412</u>
Current year's taxes collected			<u>\$ 1,913,014</u>	<u>\$ 1,891,180</u>	<u>\$ 21,834</u>
Current levy collection percentage			<u>99.31%</u>	<u>99.69%</u>	<u>74.66%</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 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 of Kure Beach") as of and for the year ended June 30, 2012, which collectively comprises the Town of Kure Beach's basic financial statements, and have issued our report thereon dated September 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Bernard Robinson & Company, L.L.P.

Greensboro, North Carolina
September 12, 2012