

**TOWN OF CAROLINA BEACH
NORTH CAROLINA**

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

TOWN OF CAROLINA BEACH, NORTH CAROLINA

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Town Council
Town of Carolina 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 Carolina Beach, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Carolina Beach's management. Our responsibility is to express an opinion on these 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 respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Carolina Beach, North Carolina, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable 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.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2011 on our consideration of the Town of Carolina Beach'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 the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of the Town of Carolina Beach, North Carolina as a whole. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 25, 2011

Management's Discussion and Analysis

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

Financial Highlights

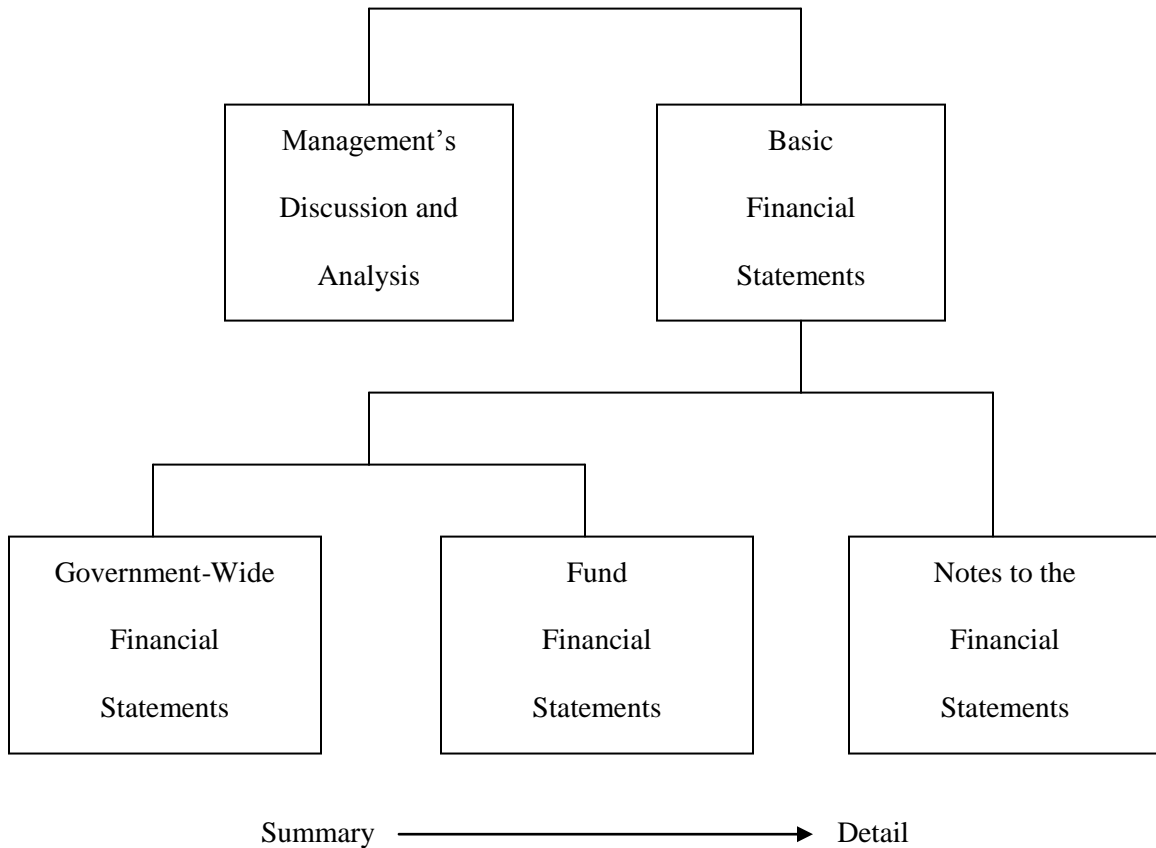
- The assets of the Town of Carolina Beach exceeded its liabilities at the close of the most recent fiscal year by \$34,274,198.
- The government's total net assets decreased by \$627,787 primarily due to decreases in business-type activities.
- As of the close of the current fiscal year, the Town of Carolina Beach's governmental funds reported combined ending fund balances of \$4,273,358 with a net change of (\$174,580). Approximately 15 percent of this total amount or \$637,040 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,217,496 or 37 percent of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Carolina Beach'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 Carolina Beach.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, community planning and development, and general administration. Property taxes, other taxes, grants, and contributions finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include water and sewer services and Tourism Fund. The final category is the component unit. The Town does not have a component unit.

The government-wide financial statements are on Exhibits A and B of the basic financial statements.

Fund Financial Statements

The fund financial statements (see Figure 2) 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 Carolina Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Carolina Beach 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. Most 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* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Proprietary Funds. The Town of Carolina Beach has two proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Carolina Beach uses enterprise funds to account for its water and sewer operations and the operation of the Tourism Fund. These funds are 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 information reported in the notes to the financial statements provides additional disclosure necessary to have a complete understanding of the data presented in the government-wide financial statements.

Other Financial Information. In addition to the basic financial statements and accompanying notes, the report also presents certain required supplementary information for the Law Enforcement Special Separation Allowance and Other Post-Employment Benefits. Required supplementary information follows the notes to the financial statements.

Town of Carolina Beach's Net Assets

Figure 2

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Assets:						
Current and other assets	\$ 4,436,212	\$ 4,622,170	\$ 7,436,026	\$ 6,886,390	\$11,872,238	\$11,508,560
Capital assets	<u>10,984,717</u>	<u>11,347,079</u>	<u>23,897,120</u>	<u>22,753,918</u>	<u>34,881,837</u>	<u>34,100,997</u>
Total assets	<u>15,420,929</u>	<u>15,969,249</u>	<u>31,333,146</u>	<u>29,640,308</u>	<u>46,754,075</u>	<u>45,609,557</u>
Liabilities:						
Long-term liabilities						
outstanding	4,316,647	4,658,062	7,684,244	5,733,064	12,000,891	10,391,126
Other liabilities	<u>17,340</u>	<u>26,140</u>	<u>461,646</u>	<u>290,306</u>	<u>478,986</u>	<u>316,446</u>
Total liabilities	<u>4,333,987</u>	<u>4,684,202</u>	<u>8,145,890</u>	<u>6,023,370</u>	<u>12,479,877</u>	<u>10,707,572</u>
Net Assets:						
Investment in capital assets,						
net of related debt	7,412,542	7,228,675	16,413,286	17,020,854	23,825,828	24,249,529
Restricted	637,040	396,778	-	-	637,040	396,778
Unrestricted	<u>3,037,360</u>	<u>3,659,594</u>	<u>6,773,970</u>	<u>6,596,084</u>	<u>9,811,330</u>	<u>10,255,678</u>
Total net assets	<u>\$ 11,086,942</u>	<u>\$ 11,285,047</u>	<u>\$ 23,187,256</u>	<u>\$ 23,616,938</u>	<u>\$34,274,198</u>	<u>\$34,901,985</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 Carolina Beach exceeded liabilities by \$34,274,198 as of June 30, 2011. The Town's net assets decreased by \$627,787 for the fiscal year ended June 30, 2011. However, a large portion \$23,825,828 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 Carolina Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Carolina Beach's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Carolina Beach's net assets, \$637,040 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,811,330 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.59%
- Continued growth in tax base

Town of Carolina Beach's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 1,655,990	\$ 1,384,398	\$ 6,428,123	\$ 6,730,996	\$ 8,084,113	\$ 8,115,394
Operating grants	429,098	694,264	-	-	429,098	694,264
General revenues:						
Property taxes	4,369,772	4,378,168	-	-	4,369,772	4,378,168
Other taxes	1,890,224	1,818,116	-	-	1,890,224	1,818,116
Other revenues	36,498	68,876	4,300	941,656	40,798	1,010,532
Total revenues	8,381,582	8,343,822	6,432,423	7,672,652	14,814,005	16,016,474
Expenses:						
General government	2,588,080	2,409,986	-	-	2,588,080	2,409,986
Public safety	2,665,350	2,684,668	-	-	2,665,350	2,684,668
Transportation	366,726	353,958	-	-	366,726	353,958
Public works	181,866	-	-	-	181,866	-
Environmental protection	2,191,137	2,174,746	-	-	2,191,137	2,174,746
Cultural and recreation	510,306	506,612	-	-	510,306	506,612
Interest on long-term debt	93,222	129,101	-	-	93,222	129,101
Utility operations	-	-	5,170,258	3,619,696	5,170,258	3,619,696
Tourism	-	-	1,674,847	1,292,383	1,674,847	1,292,383
Total expenses	8,596,687	8,259,071	6,845,105	4,912,079	15,441,792	13,171,150
Increase in net assets, before transfers	(215,105)	84,751	(412,682)	2,760,573	(627,787)	2,845,324
Transfers	17,000	(107,500)	(17,000)	107,500	-	-
Increase (decrease) in net assets	(198,105)	(22,749)	(429,682)	2,868,073	(627,787)	2,845,324
Net Assets:						
Beginning of year, July 1	11,285,047	11,307,796	23,616,938	20,748,865	34,901,985	32,056,661
End of year, June 30	\$ 11,086,942	\$ 11,285,047	\$ 23,187,256	\$ 23,616,938	\$ 34,274,198	\$ 34,901,985

Governmental Activities. Governmental activities decreased the Town's net assets by \$198,105. Key elements of this decrease are as follows:

- Franchise Tax Collections decrease 10% from prior year

Business-Type Activities. Business-type activities decreased the Town of Carolina Beach's net assets by \$429,682. Key elements of this decrease are as follows:

- Decrease is primarily due to a significant write-off in bad debt.

Financial Analysis of the Town's Funds

The Town of Carolina Beach uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The Town's annual balanced budget is prepared on the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of the North Carolina General Statutes. The General Fund is the most significant fund budgeted. The focus of the Town of Carolina Beach's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Carolina Beach's financing requirements. Specifically, available 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 Carolina Beach. At the end of the current fiscal year, fund balance available in the General Fund was \$3,876,564, while total fund balance reached \$4,273,358. The Town currently has an available fund balance of 45.2% of General Fund expenditures, while total fund balance represents 49.8% of the same amount.

At June 30, 2011, the governmental funds of the Town of Carolina Beach reported a combined fund balance of \$4,273,358 with a net decrease of \$174,580.

General Fund Budgetary Highlights. The Town's annual balanced budget is prepared in the modified accrual basis of accounting in accordance with the Budget and Fiscal Control Act of the North Carolina General Statutes. The General Fund is the most significant fund budgeted. 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.

Proprietary Funds. The Town of Carolina Beach's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the Utility Fund at the end of the fiscal year amounted to \$4,663,216, and those for the Tourism Fund amounted to \$2,110,754. The total change in net assets for both funds was a decrease of \$908,394 in the Utility Fund and a \$478,712 increase in the Tourism Fund. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Carolina Beach's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Carolina Beach's investment in capital assets for its governmental and business-type activities as of June 30, 2011, totals \$34,881,837 (net of accumulated depreciation). These assets include buildings, roads, 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):

- A project for a lift station was started and \$780,506 was expended.
- Major sewer project was begun and \$383,453 was expended.

Additional information on the Town's capital assets can be found in Note 2.A. of the Basic Financial Statements.

**Town of Carolina Beach's Outstanding Debt
Long-Term Debt**

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ -	\$ -	\$ 190,000	\$ 238,000	\$ 190,000	\$ 238,000
Revolving loans	-	-	3,387,637	2,140,515	3,387,637	2,140,515
Installment debt	3,572,175	4,118,404	3,906,197	3,255,363	7,478,372	7,373,767
Total	<u>\$ 3,572,175</u>	<u>\$ 4,118,404</u>	<u>\$ 7,483,834</u>	<u>\$ 5,633,878</u>	<u>\$ 11,056,009</u>	<u>\$ 9,752,282</u>

Long-Term Debt. As of June 30, 2011, the Town of Carolina Beach had total debt outstanding of \$11,056,009.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. At June 30, 2011, the Town of Carolina Beach had a legal debt margin of approximately \$195,490,271.

Additional information regarding the Town of Carolina Beach's long-term debt can be found in Note 4 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- Sales Tax collections increased by \$72,892
- Business License collections increased by \$33,881
- Slight increase in Building and Planning permits

Other Post-Employment Benefits

The Town has reported the annual cost and future obligations and commitments for other post employment benefits (OPEB) in accordance with the requirements of Governmental Accounting Standards Board Statement 45. Information is provided in Note 2.B. and Schedule A-2.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities. The Town Council approved \$9.16 million annual budget for fiscal year 2012 and established a tax rate at 17.5 cents per \$100 of assessed valuation. The new budget reflects an overall increase of 2% from the original adopted budget for fiscal year 2011. The Town Council has provided for the following projects for this fiscal year through the Capital Improvement Program and appropriations in the annual budget as follows:

- Expansion of Existing Fire Station
- Carl Winner Turn Lane Expansion
- Upgrades in Town's Network servers

The Town continues to work towards completion of the Wilmington Beach Street and Drainage Project.

Business-Type Activities. Rates for water and sewer will increase slightly for this coming year. In the Tourism Fund there will not be increases in fees. However, overall expenses, compared to 2010-2011 adopted budgets, decreased this year.

Several projects have been budget for this fiscal year. The Tourism Fund will purchase three new ATVs, work will be completed on the Mooring Field Grant extension, and several improvements for Freeman Park. The Water/Sewer/Stormwater Fund will continue work on planning and permitting new well sites, work on the ability to provide water to customers over the next five years. This will include the construction of a 3 millions gallon storage tank, 2 wells & line upgrades. Identify and remedy the nearly 30% water loss that is currently occurring, and complete construction for the replacement of Lift Station 1.

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 Director of Finance, Town of Carolina Beach, 1121 N. Lake Park Blvd., Carolina Beach, North Carolina 28428.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

STATEMENT OF NET ASSETS

JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 3,653,658	\$ 6,791,194	\$ 10,444,852
Taxes receivables, net	145,514	-	145,514
Accounts receivable, net	396,794	570,699	967,493
Cash and cash equivalents - restricted	240,246	74,133	314,379
Total current assets	<u>4,436,212</u>	<u>7,436,026</u>	<u>11,872,238</u>
Capital assets:			
Land and construction in progress	2,038,205	4,810,251	6,848,456
Other capital assets, net of depreciation	8,946,512	19,086,869	28,033,381
Total capital assets	<u>10,984,717</u>	<u>23,897,120</u>	<u>34,881,837</u>
Total assets	<u>15,420,929</u>	<u>31,333,146</u>	<u>46,754,075</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	9,066	387,513	396,579
Unearned revenue	8,274	-	8,274
Total current liabilities	<u>17,340</u>	<u>461,646</u>	<u>478,986</u>
Long-term liabilities:			
Due within one year	781,241	864,383	1,645,624
Due in more than one year	3,535,406	6,819,861	10,355,267
Total long-term liabilities	<u>4,316,647</u>	<u>7,684,244</u>	<u>12,000,891</u>
Total liabilities	<u>4,333,987</u>	<u>8,145,890</u>	<u>12,479,877</u>
Net Assets:			
Invested in capital assets, net of related debt	7,412,542	16,413,286	23,825,828
Stabilization by State statute	396,794	-	396,794
Streets - Powell Bill	240,246	-	240,246
Unrestricted	3,037,360	6,773,970	9,811,330
Total net assets	<u>\$ 11,086,942</u>	<u>\$ 23,187,256</u>	<u>\$ 34,274,198</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 2,588,080	\$ 83,630	\$ 199,524	\$ -
Transportation	366,726	-	229,574	-
Environmental protection	2,191,137	1,390,233	-	-
Public safety	2,665,350	124,754	-	-
Public works	181,866	-	-	-
Culture and recreation	510,306	57,373	-	-
Interest on long-term debt	93,222	-	-	-
Total governmental activities	<u>8,596,687</u>	<u>1,655,990</u>	<u>429,098</u>	<u>-</u>
Business-Type Activities:				
Utility Fund	5,226,248	4,258,497	-	55,990
Tourism Fund	<u>1,674,847</u>	<u>2,169,626</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>6,901,095</u>	<u>6,428,123</u>	<u>-</u>	<u>55,990</u>
Total primary government	<u>\$ 15,497,782</u>	<u>\$ 8,084,113</u>	<u>\$ 429,098</u>	<u>\$ 55,990</u>

General Revenues:

Taxes:

Ad valorem taxes

Local option sales tax

Other taxes and licenses

Unrestricted intergovernmental revenues

Investments earnings

Miscellaneous

Total general revenues

Transfers

Change in net assets

Net Assets:

Beginning of year - July 1

End of year - June 30

The accompanying notes are an integral part of the financial statements.

Exhibit B

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
<u>Activities</u>	<u>Activities</u>	
\$ (2,304,926)	\$ -	\$ (2,304,926)
(137,152)	-	(137,152)
(800,904)	-	(800,904)
(2,540,596)	-	(2,540,596)
(181,866)	-	(181,866)
(452,933)	-	(452,933)
(93,222)	-	(93,222)
<u>(6,511,599)</u>	<u>-</u>	<u>(6,511,599)</u>
-	(911,761)	(911,761)
<u>-</u>	<u>494,779</u>	<u>494,779</u>
<u>-</u>	<u>(416,982)</u>	<u>(416,982)</u>
<u>(6,511,599)</u>	<u>(416,982)</u>	<u>(6,928,581)</u>
4,369,772	-	4,369,772
40,902	-	40,902
82,277	-	82,277
1,767,045	-	1,767,045
8,308	4,300	12,608
<u>28,190</u>	<u>-</u>	<u>28,190</u>
<u>6,296,494</u>	<u>4,300</u>	<u>6,300,794</u>
<u>17,000</u>	<u>(17,000)</u>	<u>-</u>
(198,105)	(429,682)	(627,787)
<u>11,285,047</u>	<u>23,616,938</u>	<u>34,901,985</u>
<u>\$ 11,086,942</u>	<u>\$ 23,187,256</u>	<u>\$ 34,274,198</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund
	<u> </u>
Assets:	
Cash and cash investments	\$ 3,653,658
Taxes receivable, net	145,514
Accounts receivable, net	396,794
Restricted cash and cash equivalents	<u>240,246</u>
Total assets	<u>\$ 4,436,212</u>
 Liabilities:	
Accounts payable and accrued liabilities	\$ 9,066
Deferred revenues	<u>153,788</u>
Total liabilities	<u>162,854</u>
 Fund Balances:	
Restricted:	
Stabilization by State statute	396,794
Streets - Powell Bill	240,246
Assigned:	
Stormwater	367,992
Capital Outlay	50,830
Unassigned	<u>3,217,496</u>
Total fund balance	4,273,358

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit A) are different because:

Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,984,717
Liabilities for earned, but deferred, revenues in fund statements	145,514
Notes payable, capital lease, and pension obligations	(4,024,432)
Compensated absences	<u>(292,215)</u>
Net assets of governmental activities	<u>\$ 11,086,942</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>
Revenues:	
Ad valorem taxes	\$ 4,372,350
Other taxes and licenses	123,179
Unrestricted intergovernmental revenues	1,767,045
Restricted intergovernmental revenues	429,098
Permits and fees	124,754
Sales and services	1,531,236
Investment earnings	8,308
Miscellaneous	28,190
Total revenues	<u>8,384,160</u>
Expenditures:	
Current:	
General government	2,189,316
Transportation	357,832
Public safety	2,555,597
Environmental protection	2,191,137
Fleet	181,015
Cultural and recreation	461,392
Debt service:	
Principal	632,742
Interest	93,222
Total expenditures	<u>8,662,253</u>
Revenues over (under) expenditures	<u>(278,093)</u>
Other Financing Sources (Uses):	
Transfers from (to) other funds	17,000
Long-term debt issued	86,513
Total other financing sources (uses)	<u>103,513</u>
Net change in fund balances	(174,580)
Fund Balances:	
Beginning of year - July 1	<u>4,447,938</u>
End of year - June 30	<u>\$ 4,273,358</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Total Governmental Funds</u>
Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:	
Net changes in fund balances - total governmental funds	\$ (174,580)
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.	
Capital outlay expenditures	82,315
Depreciation expense	(444,677)
Debt and capital lease obligations issued are recorded as sources of funds on the fund statements, but has no effect on the Statement of Activities. They increase long-term liabilities in the Statement of Net Assets.	(86,513)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	632,742
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:	
Net pension obligation for law enforcement officers	(17,568)
Other post-employment benefits	(196,490)
Revenues in the Statement of Activities that do not provide current financial resources and are not reported as revenues in the funds.	<u>(2,578)</u>
Change in net assets	<u>\$ (198,105)</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance from
	Original	Final		Final Budget
				Over/Under
Revenues:				
Ad valorem taxes	\$ 4,261,500	\$ 4,261,500	\$ 4,372,350	\$ 110,850
Other taxes and licenses	85,000	85,000	123,179	38,179
Unrestricted intergovernmental	1,713,000	1,713,000	1,767,045	54,045
Restricted intergovernmental	507,500	642,500	429,098	(213,402)
Permits and fees	69,500	69,500	124,754	55,254
Sales and services	1,373,500	1,373,500	1,531,236	157,736
Investment earnings	11,000	11,000	8,308	(2,692)
Miscellaneous	4,000	4,000	28,190	24,190
Total revenues	<u>8,025,000</u>	<u>8,160,000</u>	<u>8,384,160</u>	<u>224,160</u>
Expenditures:				
Current:				
General government	2,509,370	2,506,787	2,189,316	317,471
Transportation	535,800	590,800	357,832	232,968
Public safety	2,653,712	2,826,677	2,555,597	271,080
Environmental protection	2,279,100	2,379,472	2,191,137	188,335
Fleet	183,689	187,189	181,015	6,174
Cultural and recreation	496,357	487,257	461,392	25,865
Debt service:				
Principal	-	-	632,742	(632,742)
Interest	610,000	587,812	93,222	494,590
Total expenditures	<u>9,268,028</u>	<u>9,565,994</u>	<u>8,662,253</u>	<u>903,741</u>
Revenues over (under) expenditures	<u>(1,243,028)</u>	<u>(1,405,994)</u>	<u>(278,093)</u>	<u>1,127,901</u>
Other Financing Sources (Uses):				
Transfers in	641,400	641,400	17,000	(624,400)
Long-term debt issued	-	-	86,513	86,513
Appropriated fund balance	601,628	764,594	-	(764,594)
Total other financing sources (uses)	<u>1,243,028</u>	<u>1,405,994</u>	<u>103,513</u>	<u>(1,302,481)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(174,580)</u>	<u>\$ (174,580)</u>
Fund Balance:				
Beginning of year - July 1			4,447,938	
End of year - June 30			<u>\$ 4,273,358</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Enterprise Funds</u>		
	<u>Utility Fund</u>	<u>Tourism Fund</u>	
Assets:			
Current assets:			
Cash and cash equivalents	\$ 4,538,425	\$ 2,252,769	\$ 6,791,194
Accounts receivable	564,373	6,326	570,699
Restricted cash	<u>74,133</u>	<u>-</u>	<u>74,133</u>
Total current assets	<u>5,176,931</u>	<u>2,259,095</u>	<u>7,436,026</u>
Capital assets:			
Land and other non-depreciable assets	3,643,336	1,166,915	4,810,251
Other capital assets, net of depreciation	<u>17,534,553</u>	<u>1,552,316</u>	<u>19,086,869</u>
Total non-current assets	<u>21,177,889</u>	<u>2,719,231</u>	<u>23,897,120</u>
Total assets	<u>26,354,820</u>	<u>4,978,326</u>	<u>31,333,146</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	287,937	99,576	387,513
Customer deposits	74,133	-	74,133
Current portion of long-term debt	<u>807,540</u>	<u>56,843</u>	<u>864,383</u>
Total current liabilities	<u>1,169,610</u>	<u>156,419</u>	<u>1,326,029</u>
Non-current liabilities:			
Non-current portion of long-term debt	<u>6,739,705</u>	<u>80,156</u>	<u>6,819,861</u>
Total non-current liabilities	<u>6,739,705</u>	<u>80,156</u>	<u>6,819,861</u>
Total liabilities	<u>7,909,315</u>	<u>236,575</u>	<u>8,145,890</u>
Net Assets:			
Invested in capital assets, net of related debt	13,782,289	2,630,997	16,413,286
Unrestricted	<u>4,663,216</u>	<u>2,110,754</u>	<u>6,773,970</u>
Total net assets	<u>\$ 18,445,505</u>	<u>\$ 4,741,751</u>	<u>\$ 23,187,256</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Enterprise Funds</u>		
	<u>Utility Fund</u>	<u>Tourism Fund</u>	
Operating Revenues:			
Charges for services	\$ 4,114,026	\$ -	\$ 4,114,026
Water and sewer taps	62,175	-	62,175
Other operating revenues	82,296	2,169,626	2,251,922
Total operating revenues	<u>4,258,497</u>	<u>2,169,626</u>	<u>6,428,123</u>
Operating Expenses:			
Administration	440,531	-	440,531
Facilities and equipment	191,535	-	191,535
Tourism	-	1,497,117	1,497,117
Stormwater	418,030	-	418,030
Water treatment and distribution	2,090,104	-	2,090,104
Waste collection and treatment	660,393	-	660,393
Repairs and maintenance	449,816	15,292	465,108
Depreciation	859,540	162,438	1,021,978
Total operating expenses	<u>5,109,949</u>	<u>1,674,847</u>	<u>6,784,796</u>
Operating income (loss)	<u>(851,452)</u>	<u>494,779</u>	<u>(356,673)</u>
Non-Operating Revenues:			
Investment earnings	3,367	933	4,300
Interest and other charges	(116,299)	-	(116,299)
Total non-operating revenues (expenses)	<u>(112,932)</u>	<u>933</u>	<u>(111,999)</u>
Income (loss) before transfers and capital contributions	(964,384)	495,712	(468,672)
Capital grants and contributions	55,990	-	55,990
Transfers from other funds	-	(17,000)	(17,000)
Change in net assets	(908,394)	478,712	(429,682)
Net Assets:			
Beginning of year -July 1	19,353,899	4,263,039	23,616,938
End of year - June 30	<u>\$ 18,445,505</u>	<u>\$ 4,741,751</u>	<u>\$ 23,187,256</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Enterprise Funds</u>		
	<u>Utility Fund</u>	<u>Tourism Fund</u>	
Cash Flows from Operating Activities:			
Cash received from customers	\$ 4,498,314	\$ 2,170,741	\$ 6,669,055
Cash paid to employees	(1,426,069)	(977,475)	(2,403,544)
Cash paid for goods and services	(2,595,899)	(490,811)	(3,086,710)
Net cash provided (used) by operating activities	<u>476,346</u>	<u>702,455</u>	<u>1,178,801</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers in (out)	-	(17,000)	(17,000)
Net cash flows provided (used) by non-capital financing activities	<u>-</u>	<u>(17,000)</u>	<u>(17,000)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(2,067,047)	(98,133)	(2,165,180)
Loan proceeds	2,553,592	-	2,553,592
Capital contribution	55,990	-	55,990
Principal payments on long-term debt	(649,702)	(53,934)	(703,636)
Interest payments on long-term debt	(116,299)	-	(116,299)
Net cash provided (used) by capital and related financing activities	<u>(223,466)</u>	<u>(152,067)</u>	<u>(375,533)</u>
Cash Flows from Investing Activities:			
Interest on investments	<u>3,367</u>	<u>933</u>	<u>4,300</u>
Net increase (decrease) in cash and cash equivalents	256,247	534,321	790,568
Cash and Cash Equivalents:			
Beginning of year - July 1	<u>4,356,311</u>	<u>1,718,448</u>	<u>6,074,759</u>
End of year - June 30	<u>\$ 4,612,558</u>	<u>\$ 2,252,769</u>	<u>\$ 6,865,327</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Enterprise Funds</u>		
	<u>Utility Fund</u>	<u>Tourism Fund</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (851,452)	\$ 494,779	\$ (356,673)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	859,540	162,438	1,021,978
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable and accrued liabilities	239,817	1,115	240,932
Increase (decrease) in OPEB	151,511	19,829	171,340
Total adjustments	<u>76,930</u>	<u>24,294</u>	<u>101,224</u>
	<u>1,327,798</u>	<u>207,676</u>	<u>1,535,474</u>
Net cash provided (used) by operating activities	<u>\$ 476,346</u>	<u>\$ 702,455</u>	<u>\$ 1,178,801</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of Significant Accounting Policies

A. Nature of Operations

The accounting policies of the Town of Carolina Beach (the "Town") conform to generally accepted accounting principles as applied to governments. The following is a summary of more significant accounting policies:

B. Reporting Entity

The Town is a municipal corporation that is governed by an elected Mayor and a four-member Council. As required by generally accepted accounting principles, these financial statements present the funds for which the Town is financially responsible.

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 accounting 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 and charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town 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 recipients of goods and 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 nonmajor 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, result from non-exchange transactions or ancillary units.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The Town reports the following major governmental fund:

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

The Town reports the following major enterprise funds:

Utility Fund. This fund is used to account for the Town's water and sewer and stormwater drainage operations. The Water and Sewer Fund and the old Stormwater Drainage Fund were combined during the year.

Tourism Fund. This fund is used to account for the Town's tourism activities.

C. Measurement Focus and Basis of Accounting

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

Government-Wide and 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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, 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 60 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 Carolina Beach. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in New Hanover County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Capital Projects Fund and the Enterprise Fund Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. 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 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 with a maturity of more than one year at acquisition and non-money market 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. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first followed by unrestricted resources as they are needed. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Money in the Powell Bill funds are classified as restricted cash because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2010.

Allowances for Doubtful Accounts

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

Inventory

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased. These amounts were considered immaterial at year-end and are not reported.

The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased.

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost, and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Infrastructure	30-40
Buildings	50
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

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

The vacation policies of the Town provide for the accumulation of up to thirty days earned vacation leave with such 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 as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The Town's sick leave policies provide for 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

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 externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments or imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

Restricted Fund Balance

Stabilization by State Statute – portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

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

Committed Fund Balance

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the Town of Carolina Beach intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager and Finance Officer, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

Stormwater – portion of fund balance that has been assigned by Town Council for future Stormwater expenditures.

Capital Outlay – portion of fund balance that has been assigned by Town Council for future capital outlay expenditures.

Unassigned Fund Balance

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

The Town of Carolina has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, State funds, local non-Town funds, and 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 or when required by grant or other contractual agreements.

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

Total fund balance - General Fund	\$ 4,273,358
Less:	
Stabilization by State statute	<u>396,794</u>
Total available fund balance	<u>\$ 3,876,564</u>

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 agent in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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 agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with 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 undercollateralization, 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 complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2011, the Town's deposits had a carrying amount of \$484,147 and a bank balance of \$719,268. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. As of June 30, 2011, the Town's petty cash totaled \$303.

Investments

At June 30, 2011, the Town had \$10,274,781 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard & Poor's. The Town has no policy regarding credit risk.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Receivables – Allowances for Doubtful Accounts

The receivables shown in Exhibit A at June 30, 2011 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 144,062	\$ 145,514	\$ 252,732	\$ 542,308
Business-Type Activities:				
Tourism Fund	30	-	6,296	6,326
Utility Fund	499,333	-	65,040	564,373
Total business-type activities	<u>\$ 499,363</u>	<u>\$ -</u>	<u>\$ 71,336</u>	<u>\$ 570,699</u>

Due from other governments consisted of the following:

Local option sales tax	\$ 220,466
Sales tax reimbursement	<u>32,266</u>
Total	<u>\$ 252,732</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 2,038,205	\$ -	\$ -	\$ 2,038,205
Total non-depreciable capital assets	2,038,205	-	-	2,038,205
Depreciable Capital Assets:				
Buildings	5,747,660	-	-	5,747,660
Infrastructure	3,547,663	-	-	3,547,663
Equipment	1,629,140	12,498	-	1,641,638
Vehicles and motorized equipment	2,857,358	69,817	-	2,927,175
Total depreciable capital assets	13,781,821	82,315	-	13,864,136
Less Accumulated Depreciation:				
Buildings	1,032,246	102,276	-	1,134,522
Infrastructure	240,312	24,235	-	264,547
Equipment	1,193,958	118,684	-	1,312,642
Vehicles and motorized equipment	2,006,431	199,482	-	2,205,913
Total accumulated depreciation	4,472,947	\$ 444,677	\$ -	4,917,624
Total depreciable capital assets, net	9,308,874			8,946,512
Governmental activity capital assets, net	\$ 11,347,079			\$ 10,984,717

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

Governmental Activities:	
General government	\$ 217,891
Public safety	160,084
Transportation	8,894
Environmental protection	8,894
Cultural and recreational	48,914
Total	\$ 444,677

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Business-Type Activities:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2011</u>
Utility Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 98,742	\$ -	\$ -	\$ -	\$ 98,742
Construction in progress	<u>1,781,674</u>	<u>1,762,920</u>	<u>-</u>	<u>-</u>	<u>3,544,594</u>
Total non-depreciable capital assets	<u>1,880,416</u>	<u>1,762,920</u>	<u>-</u>	<u>-</u>	<u>3,643,336</u>
Depreciable Capital Assets:					
Plant and distribution systems	23,542,237	284,863	-	-	23,827,100
Furniture and maintenance equipment	486,887	-	-	-	486,887
Vehicles	<u>299,210</u>	<u>19,264</u>	<u>-</u>	<u>-</u>	<u>318,474</u>
Total depreciable capital assets	<u>24,328,334</u>	<u>304,127</u>	<u>-</u>	<u>-</u>	<u>24,632,461</u>
Less Accumulated Depreciation:					
Plant and distribution systems	5,477,880	840,438	-	-	6,318,318
Furniture and maintenance equipment	461,278	15,250	-	-	476,528
Vehicles	<u>299,210</u>	<u>3,852</u>	<u>-</u>	<u>-</u>	<u>303,062</u>
Total accumulated depreciation	<u>6,238,368</u>	<u>859,540</u>	<u>-</u>	<u>-</u>	<u>7,097,908</u>
Total depreciable capital assets, net	<u>18,089,966</u>				<u>17,534,553</u>
Utility Fund capital assets, net	<u>19,970,382</u>				<u>21,177,889</u>
<hr/>					
Tourism Fund:					
Non-Depreciable Capital Assets:					
Land	<u>1,166,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,166,915</u>
Total non-depreciable capital assets	<u>1,166,915</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,166,915</u>
Depreciable Capital Assets:					
Tourism - boardwalk, seawall	3,177,421	60,080	-	-	3,237,501
Furniture and equipment	78,895	-	-	-	78,895
Vehicles	<u>145,984</u>	<u>38,053</u>	<u>-</u>	<u>-</u>	<u>184,037</u>
Total depreciable capital assets	<u>3,402,300</u>	<u>98,133</u>	<u>-</u>	<u>-</u>	<u>3,500,433</u>
Less Accumulated Depreciation:					
Tourism - boardwalk, seawall	1,744,564	121,829	-	-	1,866,393
Furniture and equipment	10,069	10,461	-	-	20,530
Vehicles	<u>31,046</u>	<u>30,148</u>	<u>-</u>	<u>-</u>	<u>61,194</u>
Total accumulated depreciation	<u>1,785,679</u>	<u>\$ 162,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,948,117</u>
Total depreciable capital assets, net	<u>1,616,621</u>				<u>1,552,316</u>
Tourism Fund capital assets, net	<u>2,783,536</u>				<u>2,719,231</u>
Total business-type activities	<u>\$ 22,753,918</u>				<u>\$ 23,897,120</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town 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 LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$261,546, \$138,157, and \$106,313, respectively. The contributions made by the Town equaled the required contributions for each year.

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>29</u>
Total	<u><u>31</u></u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5%-12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases. The unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2009, was 23 years.

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

Annual required contribution	\$ 44,720
Interest on net pension obligation	2,065
Adjustment to annual required contribution	<u>(2,211)</u>
Annual pension cost	44,574
Contributions made	<u>27,006</u>
Increase (decrease) in net pension obligations	17,568
Net Pension Obligation:	
Beginning of year, July 1	<u>41,297</u>
End of year, June 30	<u>\$ 58,865</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Three-Year Trend Information			
Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 30,318	74.25%	\$ 32,568
2010	30,738	71.60%	41,297
2011	44,574	60.59%	58,865

Funded Status and Funding Progress. As of December 31, 2010, 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 \$318,181. The covered payroll (annual payroll of active employees covered by the plan) was \$1,255,618, and the ratio of the UAAL to the covered payroll was 25.34 percent.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2011 were \$97,474, which consisted of \$65,528 from the Town and \$31,946 from the law enforcement officers.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Other Post-Employment Benefits

Plan Description. The Town (by local ordinance) administers a single employer defined benefit plan and provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and meet the following criteria. The retiree must have at least five years of creditable service with the Town and the retirement must be due to a medical condition, which is subject to review by the North Carolina Medical Review Board. In addition, the Town pays the full cost of coverage for these benefits for retirees with a minimum of thirty years of creditable service with the Town. Retirees who do not meet the aforementioned criteria have the option to purchase basic medical insurance for themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains healthcare coverage through a combination of self-insurance and private insurers. A separate report is not issued for the plan.

Membership of the post-employment health benefit plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	101
Active members	<u>14</u>
Total	<u>115</u>

Funding Policy. The Town agrees to provide medical insurance to certain retired employees as an extended benefit. Eligible retirees who elect this coverage will be enrolled in the group health plan. For members that retire with at least 30 years of service or that retire with approved disability retirement, the Town pays 100% of the cost for pre-65 healthcare coverage for the retiree. Years of service are considered years of creditable service with the Local Governmental Employees' Retirement System. Retirees will cease to be eligible for group health insurance at age 65. The retiree will be responsible for paying the cost of dependent coverage if dependent coverage is elected. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current annual required contribution rate (ARC) is 11.80% of annual covered payroll. For fiscal year 2011, the Town contributed \$39,414, or 7.85% of annual covered payroll. Contributions by employees for the fiscal year ended June 30, 2011, were \$0. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due from the General Fund, which is maintained on the modified accrual basis of accounting.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Annual OPEB Cost and Net OPEB Obligation. The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation for the post-retirement benefits:

Annual required contribution	\$ 335,502
Interest on net OPEB obligation	11,844
Adjustment to annual required contribution	<u>(10,218)</u>
Annual OPEB cost (expense)	337,128
Contributions made	<u>39,414</u>
Increase (decrease) in net OPEB obligation	297,714
Net Pension Obligation:	
Beginning of year, July 1	<u>296,088</u>
End of year, June 30	<u><u>\$ 593,802</u></u>

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 335,502	11.75%	\$ 296,088
2011	337,128	11.69%	593,802

As of December 31, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$2,943,234. The covered payroll (annual payroll of active employees covered by the plan) was \$4,273,355, and the ratio of the UAAL to the covered payroll was 68.9%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Actuarial Methods and Assumptions

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

The annual required contribution for the current year was determined as part of the December 31, 2009, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.00% investment rate of return, which included an inflation component of 3.75% and (b) a 10.50% - 5.00% medical cost trend rate with 2017, the year of ultimate trend rate. The actuarial value of assets was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as level percentage of pay on an open basis. The remaining amortization period at December 31, 2009, was 30 years.

Deferred/Unearned Revenues

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

	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
Taxes receivable	\$ 145,514	\$ -
Other receivables	8,274	8,274
Total	<u>\$ 153,788</u>	<u>\$ 8,274</u>

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 three 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 \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The pools are reinsured for annual employee health claims in excess of \$150,000. 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.

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.

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. Each structure is insured at an appropriate level.

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 bonded under a blanket for \$100,000.

3. Claims, Judgments, and Contingent Liabilities

At June 30, 2011, the Town was a defendant to various lawsuits. In our opinion of the Town's Management and the Town's Attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

4. Long-Term Obligations

Governmental Activities:

Installment purchase contracts at June 30, 2011 are comprised of the following:

The Town of Carolina Beach currently has eight installment purchase contracts ranging from 3% to 6% interest bearing notes. The note maturities range from 2011 to 2024. The outstanding balances are:

\$ 3,572,175

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 635,133	\$ 121,749
2013	589,416	101,767
2014	558,643	81,624
2015	521,230	66,053
2016	509,216	56,852
2017-2021	538,504	62,532
2022-2024	220,033	27,256
Total	<u>\$ 3,572,175</u>	<u>\$ 517,833</u>

Business-Type Activities:

Installment purchase contracts at June 30, 2011 are comprised of the following:

The Tourism Fund currently has two installment purchase contracts ranging from 3% to 4% interest bearing notes. The note maturities range from 2012 to 2013. The outstanding balances are:

\$ 88,234

The Water and Sewer Fund currently has 13 installment purchase contracts ranging from 3% to 6% interest bearing notes. The note maturities range from 2011 to 2024. The outstanding balances are:

\$ 3,817,963

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Tourism Fund		Water and Sewer Fund	
	Principal	Interest	Principal	Interest
2012	\$ 56,843	\$ 3,092	\$ 590,158	\$ 70,819
2013	31,391	1,090	538,003	64,560
2014	-	-	491,805	59,017
2015	-	-	402,005	48,241
2016	-	-	312,205	37,465
2017-2021	-	-	1,112,025	133,443
2022-2024	-	-	371,762	44,611
Total	<u>\$ 88,234</u>	<u>\$ 4,182</u>	<u>\$ 3,817,963</u>	<u>\$ 458,156</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

General Obligation Indebtedness

The Town's general obligation bonds serviced by the business-type funds were issued for the water and sewer lines. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2011, are comprised of the following:

General Obligation Bonds - Serviced by the Water and Sewer Fund:

\$1,100,000 Water and Sewer Refunding Bonds dated January 31, 1977 and due in annual principal installments through June 1, 2015; interest at 5%	<u>\$ 190,000</u>
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Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 48,000	\$ 9,500	\$ 57,500
2013	48,000	7,100	55,100
2014	48,000	4,700	52,700
2015	46,000	2,300	48,300
Total	\$ 190,000	\$ 23,600	\$ 213,600

Revolving Loan Payables

On May 1, 2001, the Town received \$1,854,260 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Drinking Water State Revolving Fund Program. The loan is repayable at 3% for 20 years. The loan repayment schedule based on the loan amount of \$1,854,260 calls for annual principal repayments and semi-annual interest repayments for 20 years. The total amount outstanding at June 30, 2011 was \$1,112,772.

On May 1, 2010, the Town was approved for a maximum loan amount of \$1,686,234 for a federal revolving 50% forgiveness loan for treatment of a beach storm water pond. The loan is repayable at 0% for 20 years. The loan repayment schedule is based on the outstanding amount of the loan at year end. The total amount outstanding at June 30, 2011 was \$1,621,152.

On May 1, 2010, the Town was approved for a maximum loan amount of \$1,000,000 for a federal revolving 50% forgiveness loan for Lake Park Blvd. sewer rehabilitation. The loan is repayable at 0% for 20 years. The loan repayment schedule is based on the outstanding amount of the loan at year end. The total amount outstanding at June 30, 2011 was \$653,713.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2012	\$ 169,382	\$ 28,598
2013	169,382	26,215
2014	169,382	23,832
2015	169,382	21,233
2016	169,382	19,852
2017-2021	846,910	55,104
2022-2026	846,910	21,015
2027-2030	846,907	-
Total	<u>\$ 3,387,637</u>	<u>\$ 195,849</u>

At June 30, 2011, the Town had a legal debt margin of \$195,490,271.

Changes in Long-Term Liabilities

A summary of long-term debt is as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion
Governmental Activities:					
Installment purchases	\$ 4,118,404	\$ 86,513	\$ (632,742)	\$ 3,572,175	\$ 635,133
Compensated absences	301,459	292,215	(301,459)	292,215	146,108
OPEB	196,902	222,504	(26,014)	393,392	-
Net pension obligation	41,297	44,574	(27,006)	58,865	-
Total	<u>\$ 4,658,062</u>	<u>\$ 645,806</u>	<u>\$ (987,221)</u>	<u>\$ 4,316,647</u>	<u>\$ 781,241</u>
Business-Type Activities:					
Installment purchases	\$ 3,255,363	\$ 1,213,739	\$ (562,905)	\$ 3,906,197	\$ 647,001
General obligation bonds	238,000	-	(48,000)	190,000	48,000
Revolving loans	2,140,515	1,339,853	(92,731)	3,387,637	169,382
OPEB	99,186	114,624	(13,400)	200,410	-
Total	<u>\$ 5,733,064</u>	<u>\$ 2,668,216</u>	<u>\$ (717,036)</u>	<u>\$ 7,684,244</u>	<u>\$ 864,383</u>

Compensated absences, net pension obligation, and other post-employment benefits are typically liquidated in the General Fund. Compensated absences are accounted for on a first-in, first-out basis.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

Interfund Activity

Transfers to/from Other Funds

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

From Tourism Fund to General Fund (to fund operations)	<u>\$ 17,000</u>
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5. 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 monies 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 monies.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued		Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
		Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)			
12/31/2007	\$ -	\$ 218,366	\$ 218,366	0.00%	\$ 1,154,049	18.92%
12/31/2008	-	320,427	320,427	0.00%	1,332,567	24.05%
12/31/2009	-	318,181	318,181	0.00%	1,255,618	25.34%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
	2009	\$ 30,318
2010	30,738	71.6%
2011	44,720	60.6%

Notes to the Required Schedules:

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

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	23 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.5 - 12.3%
Cost-of-living adjustments	N/A

*Includes inflation at 3.75%

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued		Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
		Liability (AAL) Projected Unit Credit (B)					
12/31/2006	\$ -	\$ 3,424,206		\$ 3,424,206	0.00%	\$ 3,940,002	86.9%
12/31/2009	-	2,943,234		2,943,234	0.00%	4,273,355	68.9%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2010	\$ 335,502	11.75%
2011	335,502	11.75%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation date	12/31/2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay open
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	4.00%
Medical cost trend rate	5% - 10.5%
Year of Ultimate trend rate	2017

* Includes inflation at 3.75%

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 4,349,683	
Penalties and interest		<u>22,667</u>	
Total	<u>\$ 4,261,500</u>	<u>4,372,350</u>	<u>\$ 110,850</u>
Other Taxes and Licenses:			
Auto licenses		40,902	
Privilege licenses		<u>82,277</u>	
Total	<u>85,000</u>	<u>123,179</u>	<u>38,179</u>
Unrestricted Intergovernmental:			
Local option sales taxes		1,301,705	
Utility franchise tax		334,575	
Cable franchise tax		<u>130,765</u>	
Total	<u>1,713,000</u>	<u>1,767,045</u>	<u>54,045</u>
Restricted Intergovernmental:			
“Powell Bill” allocation		179,574	
Other grants		<u>249,524</u>	
Total	<u>642,500</u>	<u>429,098</u>	<u>(213,402)</u>
Permits and Fees:			
Building permits		95,008	
Inspection fees		<u>29,746</u>	
Total	<u>69,500</u>	<u>124,754</u>	<u>55,254</u>
Sales and Services:			
Rents		83,630	
Recreation fees		54,544	
Court fees		2,829	
Refuse fees		<u>1,390,233</u>	
Total	<u>1,373,500</u>	<u>1,531,236</u>	<u>157,736</u>
Investment Earnings	<u>11,000</u>	<u>8,308</u>	<u>(2,692)</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Miscellaneous:			
Other miscellaneous		28,190	
Total	4,000	28,190	24,190
Total revenues	8,160,000	8,384,160	224,160
Expenditures:			
General Government:			
Salaries and employee benefits		57,592	
Other operating expenditures		347,717	
Total	596,087	405,309	190,778
Administration:			
Salaries and employee benefits		231,656	
Other operating expenditures		19,399	
Capital outlay		25,532	
Total	307,024	276,587	30,437
Clerk:			
Salaries and employee benefits		106,525	
Other operating expenditures		44,621	
Total	165,050	151,146	13,904
Finance:			
Salaries and employee benefits		149,603	
Other operating expenditures		146,992	
Total	303,182	296,595	6,587
Human Resources:			
Salaries and employee benefits		123,058	
Other operating expenditures		67,783	
Total	215,500	190,841	24,659
Legal:			
Contracted services	170,000	168,069	1,931

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Works Administration:			
Salaries and employee benefits		87,791	
Other operating expenditures		<u>45,348</u>	
Total	<u>141,843</u>	<u>134,163</u>	<u>7,680</u>
Planning:			
Salaries and employee benefits		398,821	
Other operating expenditures		<u>166,826</u>	
Total	<u>608,101</u>	<u>566,606</u>	<u>41,495</u>
Total general government	<u>2,506,787</u>	<u>2,189,316</u>	<u>317,471</u>
Public Safety:			
Police:			
Salaries and employee benefits		1,459,096	
Other operating expenditures		182,281	
Capital outlay		<u>51,370</u>	
Total	<u>1,932,312</u>	<u>1,692,747</u>	<u>239,565</u>
Fire:			
Salaries and employee benefits		528,676	
Other operating expenditures		187,666	
Capital outlay		<u>146,508</u>	
Total	<u>894,365</u>	<u>862,850</u>	<u>31,515</u>
Total public safety	<u>2,826,677</u>	<u>2,555,597</u>	<u>271,080</u>
Transportation:			
Streets and highways:			
Street maintenance		<u>251,588</u>	
Total	<u>590,800</u>	<u>357,832</u>	<u>232,968</u>
Fleet Maintenance:			
Salaries and employee benefits		58,602	
Other operating expenditures		<u>122,413</u>	
Total	<u>187,189</u>	<u>181,015</u>	<u>6,174</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Environmental Protection:			
Solid Waste:			
Salaries and employee benefits		340,078	
Other operating expenditures		1,830,059	
Capital outlay		<u>21,000</u>	
Total	<u>2,379,472</u>	<u>2,191,137</u>	<u>188,335</u>
Culture and Recreation:			
Parks and Recreation:			
Salaries and employee benefits		311,224	
Other operating expenditures		105,364	
Capital outlay		<u>44,804</u>	
Total	<u>487,257</u>	<u>461,392</u>	<u>25,865</u>
Debt Service:			
Principal retirement		632,742	
Interest and other charges		<u>93,222</u>	
Total	<u>587,812</u>	<u>725,964</u>	<u>(138,152)</u>
Total expenditures	<u>9,565,994</u>	<u>8,662,253</u>	<u>903,741</u>
Revenues over (under) expenditures	<u>(1,405,994)</u>	<u>(278,093)</u>	<u>1,127,901</u>
Other Financing Sources (Uses):			
Operating transfers in (out)	641,400	17,000	(624,400)
Long-term debt issued	-	86,513	86,513
Appropriated fund balance	<u>764,594</u>	<u>-</u>	<u>(764,594)</u>
Total other financing sources (uses)	<u>1,405,994</u>	<u>103,513</u>	<u>(1,302,481)</u>
Net change in fund balance	<u>\$ -</u>	<u>(174,580)</u>	<u>\$ (174,580)</u>
Fund Balance:			
Beginning of year - July 1		<u>4,447,938</u>	
End of year - June 30		<u>\$ 4,273,358</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**TOURISM FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Parking		\$ 373,048	
Dockage		149,870	
Park rental		975,759	
ABC revenues		227,146	
Room occupancy tax		410,805	
Miscellaneous		32,998	
Total	<u>\$ 1,802,266</u>	<u>2,169,626</u>	<u>\$ 367,360</u>
Non-Operating Revenues:			
Interest	<u>2,000</u>	<u>933</u>	<u>(1,067)</u>
Total revenues	<u>1,804,266</u>	<u>2,170,559</u>	<u>366,293</u>
Expenditures:			
Lifeguards:			
Salaries and employee benefits		273,560	
Other operating expenditures		59,433	
Capital outlay		13,500	
Total	<u>361,350</u>	<u>346,493</u>	<u>14,857</u>
Tourism:			
Salaries and employee benefits		78,256	
Other operating expenditures		20,478	
Total	<u>211,788</u>	<u>131,528</u>	<u>80,260</u>
Parking:			
Salaries and employee benefits		287,055	
Other operating expenditures		9,245	
Capital outlay		33,063	
Total	<u>403,933</u>	<u>329,363</u>	<u>74,570</u>
Beach Maintenance:			
Salaries and employee benefits		338,604	
Other operating expenditures		312,427	
Capital outlay		136,835	
Total	<u>853,747</u>	<u>787,866</u>	<u>65,881</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**TOURISM FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Repairs and maintenance	23,418	15,292	8,126
Total operating expenditures	<u>1,854,236</u>	<u>1,610,542</u>	<u>243,694</u>
Debt Service:			
Principal retirement		53,934	
Total	<u>-</u>	<u>53,934</u>	<u>(53,934)</u>
Total expenditures	<u>1,854,236</u>	<u>1,664,476</u>	<u>189,760</u>
Revenues over (under) expenditures	<u>(49,970)</u>	<u>506,083</u>	<u>556,053</u>
Other Financing Sources (Uses):			
Appropriated fund balance	391,370	-	(391,370)
Transfer to General Fund	<u>(341,400)</u>	<u>(17,000)</u>	<u>324,400</u>
Total other financing sources (uses)	<u>49,970</u>	<u>(17,000)</u>	<u>(66,970)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 489,083</u>	<u>\$ 489,083</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 489,083	
Reconciling items:			
Principal retirement		53,934	
Capital outlay		98,133	
Depreciation		<u>(162,438)</u>	
Change in net assets		<u>\$ 478,712</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Customer charges:			
Water and sewer charges		\$ 2,805,839	
User fees		230,418	
Other municipals		307,133	
Stormwater fees		<u>770,636</u>	
Total	<u>\$ 4,261,800</u>	<u>4,114,026</u>	<u>\$ (147,774)</u>
Other operating revenues:			
Water and sewer taps	26,000	62,175	36,175
Other operating revenues	<u>377,000</u>	<u>82,296</u>	<u>(294,704)</u>
Total other operating revenues	<u>403,000</u>	<u>144,471</u>	<u>(258,529)</u>
Non-Operating Revenues:			
Interest	<u>7,000</u>	<u>3,367</u>	<u>(3,633)</u>
Total revenues	<u>4,671,800</u>	<u>4,261,864</u>	<u>(409,936)</u>
Expenditures:			
Water and Sewer Administration:			
Salaries and employee benefits		222,705	
Other operating expenditures		<u>217,826</u>	
Total	<u>685,299</u>	<u>440,531</u>	<u>244,768</u>
Facilities and Equipment:			
Salaries and employee benefits		72,523	
Other operating expenditures		<u>119,012</u>	
Total	<u>180,300</u>	<u>191,535</u>	<u>(11,235)</u>
Water Treatment and Distribution:			
Salaries and employee benefits		264,252	
Chemicals		38,259	
Utilities		140,007	
Other operating expenditures		<u>136,275</u>	
Total	<u>589,002</u>	<u>578,793</u>	<u>10,209</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Water Distribution:			
Salaries and employee benefits		108,185	
Utilities		60,701	
Other operating expenditures		<u>189,551</u>	
Total	<u>372,420</u>	<u>358,437</u>	<u>13,983</u>
Waste Collection and Treatment:			
Sewer Collection System:			
Salaries and employee benefits		463,161	
Other operating expenditures		<u>197,232</u>	
Total	<u>668,357</u>	<u>660,393</u>	<u>7,964</u>
Stormwater Drainage:			
Salaries and employee benefits		295,243	
Other operating expenditures		<u>122,787</u>	
Total	<u>424,500</u>	<u>418,030</u>	<u>6,470</u>
Repairs and maintenance	<u>518,511</u>	<u>449,816</u>	<u>68,695</u>
Total operating expenditures	<u>3,438,389</u>	<u>3,097,535</u>	<u>340,854</u>
Debt Service:			
Interest expense		116,299	
Principal retirement		<u>649,702</u>	
Total	<u>700,283</u>	<u>766,001</u>	<u>(65,718)</u>
Capital Outlay:			
System improvements	<u>1,530,619</u>	<u>304,127</u>	<u>1,226,492</u>
Total expenditures	<u>5,669,291</u>	<u>4,167,663</u>	<u>1,501,628</u>
Revenues over (under) expenditures	<u>(997,491)</u>	<u>94,201</u>	<u>1,091,692</u>
Other Financing Sources (Uses):			
Appropriated fund balance	1,475,491	-	(1,475,491)
Transfer to General Fund	<u>(478,000)</u>	-	<u>478,000</u>
Total other financing sources (uses)	<u>997,491</u>	-	<u>(997,491)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 94,201</u>	<u>\$ 94,201</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 94,201	
Reconciling items:			
Capital Project Fund - non-capital expenses		(1,152,874)	
Capital contribution		55,990	
Principal retirement		649,702	
Capital outlay		304,127	
Depreciation		<u>(859,540)</u>	
Change in net assets		<u>\$ (908,394)</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
Revenues:				
Grant proceeds	\$ -	\$ 935,011	-	\$ -
Total revenues	-	935,011	-	-
Expenditures:				
Lake Park Rehab	1,481,051	517,688	1,675,408	2,192,863
ARRA - Stormwater	2,700,000	1,293,365	701,010	1,994,375
Carolina Sands	-	455,324	-	455,324
Total expenditures	<u>4,181,051</u>	<u>2,266,377</u>	<u>2,376,418</u>	<u>4,642,562</u>
Revenues over (under) expenditures	<u>(4,181,051)</u>	<u>(1,331,366)</u>	<u>(2,376,418)</u>	<u>(4,642,562)</u>
Other Financing Sources (Uses):				
Long-term borrowing issued	2,881,051	935,012	2,553,592	3,488,371
Transfers in (out)	<u>1,300,000</u>	<u>455,314</u>	-	<u>455,314</u>
Total other financing sources (uses)	<u>4,181,051</u>	<u>1,390,326</u>	<u>2,553,592</u>	<u>3,943,685</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 58,960</u>	<u>\$ 177,174</u>	<u>\$ (698,877)</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011	\$ -	\$ 4,354,491	\$ (4,293,048)	\$ 61,443
2009-2010	70,985	-	(51,982)	19,003
2008-2009	12,407	-	(4,728)	7,679
2007-2008	10,350	-	(797)	9,553
2006-2007	11,191	-	(420)	10,771
2005-2006	8,667	-	(94)	8,573
2004-2005	8,052	-	(164)	7,888
2003-2004	12,344	-	(89)	12,255
2002-2003	7,557	-	(379)	7,178
2001-2002	6,197	-	(26)	6,171
2000-2001	5,342	-	(5,342)	-
Total	<u>\$ 153,092</u>	<u>\$ 4,354,491</u>	<u>\$ (4,357,069)</u>	<u>150,514</u>
Less: allowance for uncollectible ad valorem taxes receivable				<u>5,000</u>
Ad valorem taxes receivable, net				<u>\$ 145,514</u>
Reconciliation of Collections and Credits with Revenues:				
Ad valorem taxes:				
General Fund				\$ 4,372,350
Reconciling items:				
Releases and refunds and other adjustments				(20,623)
Amounts written off for tax years per statute of limitations				<u>5,342</u>
Total collections and credits				<u>\$ 4,357,069</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**ANALYSIS OF CURRENT YEAR LEVY
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Town-Wide</u>			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>		
Original Levy:					
Property taxed at current year's rate	<u>\$2,488,280,571</u>	\$ 0.18	\$ 4,354,491	\$ 4,270,632	\$ 83,859
Uncollected taxes at June 30, 2011			<u>(61,443)</u>	<u>(58,283)</u>	<u>(3,160)</u>
Current Year's Taxes Collected			<u>\$ 4,293,048</u>	<u>\$ 4,212,349</u>	<u>\$ 80,699</u>
Current Levy Collection Percentage			<u>98.59%</u>	<u>98.64%</u>	<u>96.23%</u>

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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 Town Council
Town of Carolina Beach, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Carolina Beach as of and for the year ended June 30, 2011, not presented here which collectively comprise the Town of Carolina Beach's basic financial statements and have issued our report thereon dated October 25, 2011. 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 Carolina Beach is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Carolina 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 Carolina Beach's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Carolina Beach's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not be designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies, 2011-01 and 2011-02, described in the accompanying Schedule of Findings and Questioned Costs, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Carolina 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, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Carolina Beach's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Town of Carolina Beach's responses and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, others within the organization, members of the Town Council, 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 25, 2011

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Report On Compliance With Requirements That Could Have a Direct And Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act

To the Town Council
Town of Carolina Beach, North Carolina

Compliance

We have audited the Town of Carolina Beach's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Carolina Beach's major federal programs for the year ended June 30, 2011. The Town of Carolina Beach's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Carolina Beach's management. Our responsibility is to express an opinion on the Town of Carolina Beach's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Carolina Beach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Carolina Beach's compliance with those requirements.

In our opinion, the Town of Carolina Beach complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Town of Carolina Beach is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Carolina Beach's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Carolina Beach's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Carolina Beach as of and for the year ended June 30, 2011, which collectively comprise the Town of Carolina Beach, North Carolina's basic financial statements and have issued our report thereon dated October 25, 2011 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Carolina Beach North Carolina's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

This report is intended solely for the information and use of management, others within the organization, members of the Town Council, 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.

October 25, 2011

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Report On Compliance With Requirements That Could Have a Direct And Material Effect On Each Major State Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 And The State Single Audit Implementation Act

To the Town Council
Town of Carolina Beach, North Carolina

Compliance

We have audited the compliance of the Town of Carolina Beach with the types of compliance requirements described in applicable sections of the OMB *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011. The Town of Carolina Beach's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major State programs is the responsibility of the Town of Carolina Beach's management. Our responsibility is to express an opinion on the Town of Carolina Beach's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Town of Carolina Beach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Carolina Beach's compliance with those requirements.

In our opinion, the Town of Carolina Beach complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Town of Carolina Beach is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to State programs. In planning and performing our audit, we considered the Town of Carolina Beach's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Carolina Beach's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a State program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Carolina Beach as of and for the year ended June 30, 2011, which collectively comprise the Town of Carolina Beach, North Carolina's basic financial statements and have issued our report thereon dated October 25, 2011 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Carolina Beach North Carolina's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of management, others within the organization, members of the Town Council, 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 25, 2011

TOWN OF CAROLINA BEACH, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

• Material weakness(es) identified? Yes

• Significant deficiency identified? No

Non-compliance material to financial statements noted No

Federal Awards:

Internal control over major Federal programs:

• Material weakness(es) identified? No

• Significant deficiency identified? No

Type of auditors' report issued on compliance for major federal programs Unqualified

Any audit findings disclosed that are required to be Reported in accordance with Section 510(a) of Circular A-133? No

Identification of major federal programs:

<u>CFDA#</u>	<u>Name of Federal Program</u>
66.458	Clean Water State Revolving Loan

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? No

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

State Awards:

Internal control over major State programs:

- Material weakness(es) identified? No
- Significant deficiency identified? No

Type of auditors' report issued on compliance for major State programs Unqualified

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

Identification of major State programs:

Program Name

Powell Bill

TOWN OF CAROLINA BEACH, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

2. Financial Statement Findings

2011-01

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicated that the Town's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Context: The external auditor identified significant audit adjustments as defined above.

Effect: Internal financial statements, provided to management during the year, may report results that are significantly different than the audited results provided after year-end.

Cause: Insufficient monthly reconciliations and inherent limitations due to the size of finance staff.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the Town's available resources.

Name of Contact Person: Dawn Johnson, Finance Director

Management's Response: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus, reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

2011-02

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by the Town's personnel with regards to drafting full accrual, full disclosure financial statements.

Context: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above is cost prohibitive.

Effect: The Town requires assistance from the external auditor in drafting the financial statements.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Contact Person: Dawn Johnson, Finance Director

Management's Response: Management is aware of the weakness but, due to the cost versus benefit analysis, it will continue to rely on the external auditor to draft the year-end financial statements. The Town will exercise due care in reviewing the financial statements drafted by the external auditor. The Town acknowledges and accepts responsibility for the accuracy of the audited financial statements. The Town Manager, Finance Officer, and Town Council will carefully review the audited financial statements and inquire directly of the auditor if they have questions regarding the audited financial statements.

3. Federal Award Findings and Questioned Costs

None

4. State Award Findings and Questioned Costs

None

TOWN OF CAROLINA BEACH, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

Finding 2010-01 – Repeated in the current year

Finding 2010-02 – Repeated in the current year

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2011**

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
<u>Federal Financial Assistance Programs</u>			
<u>U.S. Environmental Protection Agency</u>			
Passed-through N.C. Department of Environment and Natural Resources:			
Clean Water State Revolving Loan	66.458	\$ 619,534	\$ -
Total Federal Assistance		<u>\$ 619,534</u>	<u>\$ -</u>
<u>State Financial Assistance Programs</u>			
<u>North Carolina Department of Transportation:</u>			
<u>Division of Highways:</u>			
State Street-Aid Allocation Fund (Powell Bill)		\$ -	\$ 382,220
Total State Assistance		<u>\$ -</u>	<u>\$ 382,220</u>

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal grant activity of the Town of Carolina Beach and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.