

**TOWN OF CAROLINA BEACH
NORTH CAROLINA**

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013

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

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

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INDEPENDENT AUDITOR'S REPORT

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

Report On the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, and each major fund of the Town of Carolina Beach, North Carolina, as of June 30, 2013, and the respective changes in financial position, and cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Carolina Beach's basic financial statements. The 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 individual fund financial statements, budget and actual schedules and supplemental ad valorem tax schedules are the responsibility of management and were derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements, budget and actual schedules and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated January 31, 2014, 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, 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*, in considering the Town of Carolina Beach's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 31, 2013

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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, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

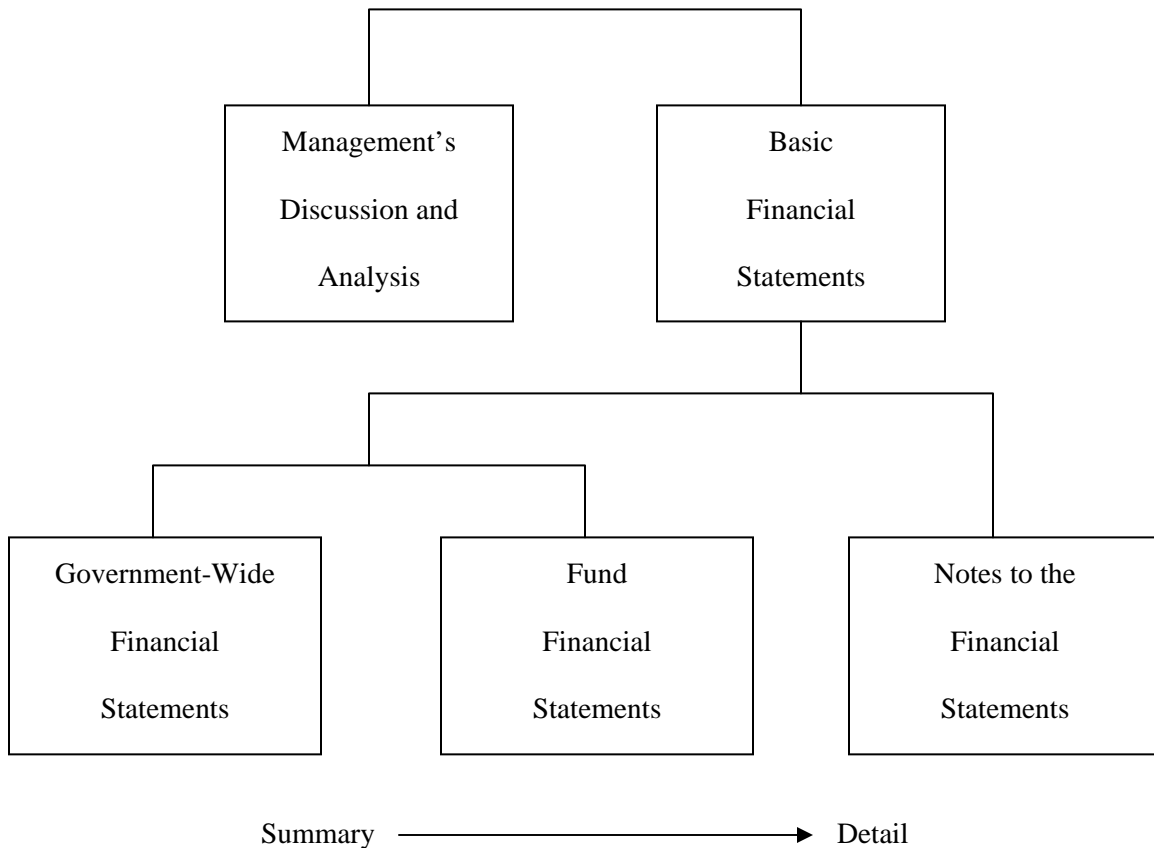
- The assets of the Town of Carolina Beach exceeded its liabilities at the close of the most recent fiscal year by \$38,884,976.
- The government's total net position increased by \$4,317,922, primarily due to increases in business-type activities.
- As of the close of the current fiscal year, the Town of Carolina Beach's governmental funds reported combined ending fund balances of \$5,858,760 with a net change of 1,879,436. Approximately 14% of this total amount, or \$799,300, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,252,896, or 50%, of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position 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 the 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 governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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 Position 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 Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 6,152,681	\$ 4,275,669	\$ 10,148,997	\$ 8,143,582	\$ 16,301,678	\$ 12,419,251
Capital assets	10,679,438	10,998,734	25,706,574	24,911,014	36,386,012	35,909,748
Total assets	16,832,119	15,274,403	35,855,571	33,054,596	52,687,690	48,328,999
Liabilities:						
Long-term liabilities						
outstanding	4,614,417	3,791,440	8,863,831	9,490,325	13,478,248	13,281,765
Other liabilities	144,740	151,865	179,726	328,315	324,466	480,180
Total liabilities	4,759,157	3,943,305	9,043,557	9,818,640	13,802,714	13,761,945
Net Position:						
Net investment in						
capital assets	7,164,097	8,131,039	17,252,533	15,727,245	24,416,630	23,858,284
Restricted	799,300	659,092	-	-	799,300	659,092
Unrestricted	4,109,565	2,540,967	9,559,481	7,508,711	13,669,046	10,049,678
Total net position	\$ 12,072,962	\$ 11,331,098	\$ 26,812,014	\$ 23,235,956	\$ 38,884,976	\$ 34,567,054

As noted earlier, net position may serve over time, as one useful indicator of a government's financial condition. The assets of the Town of Carolina Beach exceeded liabilities by \$38,884,976 as of June 30, 2013. The Town's net position increased by \$4,317,922 for the fiscal year ended June 30, 2013. However, a large portion, \$24,416,630, reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town 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 position, \$799,300, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$13,669,046 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.64%
- Continued growth in tax base

Town of Carolina Beach's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,764,368	\$ 1,611,993	\$ 8,429,055	\$ 7,191,435	\$ 10,193,423	\$ 8,803,428
Operating grants	533,983	340,584	-	-	533,983	340,584
General revenues:						
Property taxes	3,833,980	4,388,703	-	-	3,833,980	4,388,703
Other taxes	1,977,225	1,936,547	-	-	1,977,225	1,936,547
Other revenues	249,653	16,710	1,821	2,026	251,474	18,736
Total revenues	8,359,209	8,294,537	8,430,876	7,193,461	16,790,085	15,487,998
Expenses:						
General government	2,535,133	2,787,763	-	-	2,535,133	2,787,763
Public safety	2,614,121	2,688,112	-	-	2,614,121	2,688,112
Transportation	28,877	123,506	-	-	28,877	123,506
Public works	141,294	240,684	-	-	141,294	240,684
Environmental protection	2,393,815	2,301,512	-	-	2,393,815	2,301,512
Cultural and recreation	436,118	479,756	-	-	436,118	479,756
Interest on long-term debt	200,770	441,554	-	-	200,770	441,554
Utility operations	-	-	2,732,743	4,070,989	2,732,743	4,070,989
Tourism	-	-	1,389,292	1,594,393	1,389,292	1,594,393
Total expenses	8,350,128	9,062,887	4,122,035	5,665,382	12,472,163	14,728,269
Increase in net position, before transfers	9,081	(768,350)	4,308,841	1,528,079	4,317,922	759,729
Transfers	732,783	887,506	(732,783)	(887,506)	-	-
Increase (decrease) in net position	741,864	119,156	3,576,058	640,573	4,317,922	759,729
Net Position:						
Beginning of year - July 1,	11,331,098	11,211,942	23,235,956	22,595,383	34,567,054	33,807,325
End of year - June 30	\$ 12,072,962	\$ 11,331,098	\$ 26,812,014	\$ 23,235,956	\$ 38,884,976	\$ 34,567,054

Governmental Activities. Governmental activities increased the Town's net position by \$741,864. Key elements of this increase are as follows:

- Overall increase in tax collection
- Reduction in expenditures

Business-Type Activities. Business-type activities increased the Town of Carolina Beach's net position by \$3,576,058. Key elements of this increase are as follows:

- Increase is primarily due to a decrease in expenditures within the Utility Fund and Tourism

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 \$5,517,260, while total fund balance reached \$5,858,760. The Town currently has an available fund balance of 65% of General Fund expenditures, while total fund balance represents 69% of the same amount.

At June 30, 2013, the governmental funds of the Town of Carolina Beach reported a combined fund balance of \$5,858,760 with a net increase of \$1,879,436.

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 position of the Utility Fund at the end of the fiscal year amounted to \$7,156,196, and those for the Tourism Fund amounted to \$2,403,285. The total change in net position for both funds was an increase of \$3,318,216 in the Utility Fund and a \$257,842 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, 2013, totals \$36,386,012 (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 continues
- Major sewer project continues

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

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ -	\$ -	\$ 94,000	\$ 142,000	\$ 94,000	\$ 142,000
Revolving loans	-	-	1,972,755	2,148,978	1,972,755	2,148,978
Installment debt	3,515,341	2,867,695	6,387,286	6,892,791	9,902,627	9,760,486
Total	<u>\$ 3,515,341</u>	<u>\$ 2,867,695</u>	<u>\$ 8,454,041</u>	<u>\$ 9,183,769</u>	<u>\$ 11,969,382</u>	<u>\$ 12,051,464</u>

Long-Term Debt. As of June 30, 2013, the Town of Carolina Beach had total debt outstanding of \$11,969,382.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. At June 30, 2013, the Town of Carolina Beach had a legal debt margin of approximately \$171,376,105.

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.

- Construction of major hotel in downtown business district
- Continued growth Room Occupancy Tax
- Continued increase in Building and Planning Permits
- Completion of Advanced Metering Project
- Purchase of property for waste transfer station

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 No. 45. Information is provided in Note 2.B. and Schedule A-2.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities. The Town Council approved \$11 million annual budget for fiscal year 2014 and established a tax rate at 23.5 cents per \$100 of assessed valuation. The new budget reflects a combination of the General Fund with the Tourism Fund. 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:

- Approximately \$70,000 in recreation center improvements
- Fire station rehabilitation
- Boardwalk renovation project

Business-Type Activities. There are many water/sewer projects anticipated for the 2014 budget year. The Town is planning on rehabilitating 6,100 linear feet of secondary sewer force main for pump station #1, replace 29,000 linear feet of galvanized and cast iron water lines as well as 34,000 linear feet of sanitary sewer main. Replace and or rehabilitate 5,500 linear feet of sanitary sewer main and construct a 1.5MG ground storage tank along with pump and piping for a new well 15H. These projects will be done in phases and completed over the next three years.

Along with the projects above, we are purchasing new VFD blowers for the plant with an anticipated cost of \$43,000 as well as purchasing a VFD controller and generator for the Greenville Avenue Pump Station. SCADA will be installed on 4 pump station at an anticipated cost of \$42,000

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 North Lake Park Boulevard, Carolina Beach, North Carolina 28428.

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TOWN OF CAROLINA BEACH, NORTH CAROLINA

STATEMENT OF NET POSITION

JUNE 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 5,204,200	\$ 9,388,574	\$ 14,592,774
Taxes receivables, net	149,181	-	149,181
Accounts receivable, net	341,500	684,593	1,026,093
Cash and cash equivalents - restricted	457,800	75,830	533,630
Total current assets	<u>6,152,681</u>	<u>10,148,997</u>	<u>16,301,678</u>
Capital assets:			
Land and construction in progress	2,038,205	7,572,488	9,610,693
Other capital assets, net of depreciation	8,641,233	18,134,086	26,775,319
Total capital assets	<u>10,679,438</u>	<u>25,706,574</u>	<u>36,386,012</u>
Total assets	<u>16,832,119</u>	<u>35,855,571</u>	<u>52,687,690</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	144,740	103,896	248,636
Payable from restricted assets	-	75,830	75,830
Total current liabilities	<u>144,740</u>	<u>179,726</u>	<u>324,466</u>
Long-term liabilities:			
Due within one year	789,229	973,345	1,762,574
Due in more than one year	3,825,188	7,890,486	11,715,674
Total long-term liabilities	<u>4,614,417</u>	<u>8,863,831</u>	<u>13,478,248</u>
Total liabilities	<u>4,759,157</u>	<u>9,043,557</u>	<u>13,802,714</u>
Net Position:			
Net investment in capital assets	7,164,097	17,252,533	24,416,630
Stabilization by State statute	341,500	-	341,500
Streets - Powell Bill	457,800	-	457,800
Unrestricted	4,109,565	9,559,481	13,669,046
Total net position	<u>\$ 12,072,962</u>	<u>\$ 26,812,014</u>	<u>\$ 38,884,976</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, 2013**

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 2,535,133	\$ 75,153	\$ 100,000	\$ -
Transportation	28,877	-	183,435	-
Environmental protection	2,393,815	1,436,251	-	-
Public safety	2,614,121	187,947	-	-
Public works	141,294	-	-	-
Cultural and recreation	436,118	65,017	-	-
Interest on long-term debt	200,770	-	-	-
Total governmental activities	<u>8,350,128</u>	<u>1,764,368</u>	<u>283,435</u>	<u>-</u>
Business-Type Activities:				
Utility Fund	3,839,588	7,456,343	-	-
Tourism Fund	1,389,292	2,079,557	-	-
Total business-type activities	<u>5,228,880</u>	<u>9,535,900</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 13,579,008</u>	<u>\$ 11,300,268</u>	<u>\$ 283,435</u>	<u>\$ -</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 position

Net Position:

Beginning of year - July 1

End of year - June 30

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

Exhibit B

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (2,359,980)	\$ -	\$ (2,359,980)
154,558	-	154,558
(957,564)	-	(957,564)
(2,426,174)	-	(2,426,174)
(141,294)	-	(141,294)
(371,101)	-	(371,101)
(200,770)	-	(200,770)
<u>(6,302,325)</u>	<u>-</u>	<u>(6,302,325)</u>
-	3,616,755	3,616,755
-	<u>690,265</u>	<u>690,265</u>
-	<u>4,307,020</u>	<u>4,307,020</u>
<u>(6,302,325)</u>	<u>4,307,020</u>	<u>(1,995,305)</u>
3,833,980	-	3,833,980
32,547	-	32,547
97,109	-	97,109
1,847,569	-	1,847,569
6,525	1,821	8,346
493,676	-	493,676
<u>6,311,406</u>	<u>1,821</u>	<u>6,313,227</u>
<u>732,783</u>	<u>(732,783)</u>	<u>-</u>
741,864	3,576,058	4,317,922
<u>11,331,098</u>	<u>23,235,956</u>	<u>34,567,054</u>
<u>\$ 12,072,962</u>	<u>\$ 26,812,014</u>	<u>\$ 38,884,976</u>

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	<u>General Fund</u>
Assets:	
Cash and cash investments	\$ 5,204,200
Taxes receivable, net	149,181
Accounts receivable, net	341,500
Restricted cash and cash equivalents	<u>457,800</u>
Total assets	<u>\$ 6,152,681</u>
Liabilities:	
Accounts payable and accrued liabilities	<u>\$ 144,740</u>
Deferred Inflows of Resources	<u>149,181</u>
Fund Balances:	
Restricted:	
Stabilization by State statute	341,500
Streets - Powell Bill	457,800
Assigned:	
Stormwater	726,950
Capital outlay	79,614
Unassigned	<u>4,252,896</u>
Total fund balance	5,858,760
Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:	
Net capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,679,438
Liabilities for earned revenues considered deferred inflows for resources in fund statements	149,181
Notes payable, capital lease, and pension obligations	(4,363,672)
Compensated absences	<u>(250,745)</u>
Net position of governmental activities	<u>\$ 12,072,962</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, 2013**

	General Fund
Revenues:	
Ad valorem taxes	\$ 3,829,279
Other taxes and licenses	129,656
Unrestricted intergovernmental revenues	1,847,569
Restricted intergovernmental revenues	283,435
Permits and fees	187,947
Sales and services	1,576,421
Investment earnings	6,525
Miscellaneous	493,676
Total revenues	8,354,508
 Expenditures:	
Current:	
General government	2,164,745
Transportation	26,450
Public safety	2,462,048
Environmental protection	2,393,815
Fleet	172,478
Cultural and recreation	435,195
Debt service:	
Principal	591,502
Interest	200,770
Total expenditures	8,447,003
Revenues over (under) expenditures	(92,495)
 Other Financing Sources (Uses):	
Transfers from (to) other funds	732,783
Long-term debt issued	1,239,148
Total other financing sources (uses)	1,971,931
Net change in fund balances	1,879,436
 Fund Balances:	
Beginning of year - July 1	3,979,324
End of year - June 30	\$ 5,858,760

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, 2013**

	Total Governmental Funds
Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:	
Net changes in fund balances - total governmental funds	\$ 1,879,436
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	119,909
Depreciation expense	(439,205)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
New long-term debt issued	(1,239,148)
Principal payments on long-term debt	591,502
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	(13,103)
Other post-employment benefits	(182,284)
Revenues in the Statement of Activities that do not provide current financial resources and are not reported as revenues in the funds.	4,701
Total changes in net position of governmental activities	\$ 741,864

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, 2013

	Budgeted Amounts		Actual	Variance from Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 3,851,000	\$ 3,851,000	\$ 3,829,279	\$ (21,721)
Other taxes and licenses	86,100	86,100	129,656	43,556
Unrestricted intergovernmental	1,506,344	1,506,344	1,847,569	341,225
Restricted intergovernmental	470,000	219,452	283,435	63,983
Permits and fees	84,200	84,200	187,947	103,747
Sales and services	1,508,500	1,508,500	1,576,421	67,921
Investment earnings	3,500	3,500	6,525	3,025
Miscellaneous	390,112	640,660	493,676	(146,984)
Total revenues	<u>7,899,756</u>	<u>7,899,756</u>	<u>8,354,508</u>	<u>454,752</u>
Expenditures:				
Current:				
General government	2,124,511	2,268,275	2,164,745	103,530
Transportation	178,000	178,000	26,450	151,550
Public safety	2,689,688	2,672,318	2,462,048	210,270
Environmental protection	2,414,536	2,430,909	2,393,815	37,094
Fleet	217,294	217,294	172,478	44,816
Cultural and recreation	461,518	519,350	435,195	84,155
Debt service:				
Principal	465,000	580,000	591,502	(11,502)
Interest	365,436	213,806	200,770	13,036
Total expenditures	<u>8,915,983</u>	<u>9,079,952</u>	<u>8,447,003</u>	<u>632,949</u>
Revenues over (under) expenditures	<u>(1,016,227)</u>	<u>(1,180,196)</u>	<u>(92,495)</u>	<u>1,087,701</u>
Other Financing Sources (Uses):				
Transfers in	757,783	757,783	732,783	(25,000)
Long-term debt issued	-	-	1,239,148	1,239,148
Appropriated fund balance	258,444	422,413	-	(422,413)
Total other financing sources (uses)	<u>1,016,227</u>	<u>1,180,196</u>	<u>1,971,931</u>	<u>791,735</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	1,879,436	<u>\$ 1,879,436</u>
Fund Balance:				
Beginning of year - July 1			<u>3,979,324</u>	
End of year - June 30			<u>\$ 5,858,760</u>	

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

JUNE 30, 2013

	<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	\$ 6,809,879	\$ 2,578,695	\$ 9,388,574
Accounts receivable	684,593	-	684,593
Restricted cash	<u>75,830</u>	<u>-</u>	<u>75,830</u>
Total current assets	<u>7,570,302</u>	<u>2,578,695</u>	<u>10,148,997</u>
Capital assets:			
Land and other non-depreciable assets	5,471,518	2,100,970	7,572,488
Other capital assets, net of depreciation	<u>16,744,325</u>	<u>1,389,761</u>	<u>18,134,086</u>
Total non-current assets	<u>22,215,843</u>	<u>3,490,731</u>	<u>25,706,574</u>
Total assets	<u>29,786,145</u>	<u>6,069,426</u>	<u>35,855,571</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	21,665	82,231	103,896
Liabilities payable from restricted assets	75,830	-	75,830
Current portion of long-term debt	<u>973,345</u>	<u>-</u>	<u>973,345</u>
Total current liabilities	<u>1,070,840</u>	<u>82,231</u>	<u>1,153,071</u>
Non-current liabilities:			
Non-current portion of long-term debt	<u>7,797,307</u>	<u>93,179</u>	<u>7,890,486</u>
Total liabilities	<u>8,868,147</u>	<u>175,410</u>	<u>9,043,557</u>
Net Position:			
Net investment in capital assets	13,761,802	3,490,731	17,252,533
Unrestricted	<u>7,156,196</u>	<u>2,403,285</u>	<u>9,559,481</u>
Total net position	<u>\$ 20,917,998</u>	<u>\$ 5,894,016</u>	<u>\$ 26,812,014</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 POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<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	\$ 5,045,588	\$ -	\$ 5,045,588
Water and sewer taps	63,660	-	63,660
Other operating revenues	<u>2,347,095</u>	<u>2,079,557</u>	<u>4,426,652</u>
Total operating revenues	<u>7,456,343</u>	<u>2,079,557</u>	<u>9,535,900</u>
Operating Expenses:			
Administration	364,491	-	364,491
Facilities and equipment	190,734	-	190,734
Tourism	-	1,198,716	1,198,716
Stormwater	342,044	-	342,044
Water treatment and distribution	915,374	-	915,374
Waste collection and treatment	611,762	-	611,762
Repairs and maintenance	296,798	12,983	309,781
Depreciation	<u>869,921</u>	<u>177,593</u>	<u>1,047,514</u>
Total operating expenses	<u>3,591,124</u>	<u>1,389,292</u>	<u>4,980,416</u>
Operating income (loss)	<u>3,865,219</u>	<u>690,265</u>	<u>4,555,484</u>
Non-Operating Revenues:			
Investment earnings	1,461	360	1,821
Interest and other charges	<u>(248,464)</u>	<u>-</u>	<u>(248,464)</u>
Total non-operating revenues (expenses)	<u>(247,003)</u>	<u>360</u>	<u>(246,643)</u>
Income (loss) before transfers	3,618,216	690,625	4,308,841
Transfers from (to) other funds	<u>(300,000)</u>	<u>(432,783)</u>	<u>(732,783)</u>
Change in net position	3,318,216	257,842	3,576,058
Net Position:			
Beginning of year - July 1	<u>17,599,782</u>	<u>5,636,174</u>	<u>23,235,956</u>
End of year - June 30	<u>\$ 20,917,998</u>	<u>\$ 5,894,016</u>	<u>\$ 26,812,014</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, 2013

	<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	\$ 7,447,098	\$ 2,087,707	\$ 9,534,805
Cash paid to employees	(1,308,370)	(802,307)	(2,110,677)
Cash paid for goods and services	(1,494,361)	(399,295)	(1,893,656)
Net cash provided (used) by operating activities	<u>4,644,367</u>	<u>886,105</u>	<u>5,530,472</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers in (out)	<u>(300,000)</u>	<u>(432,783)</u>	<u>(732,783)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(659,720)	(76,509)	(736,229)
Loan proceeds	341,668	-	341,668
Principal payments on long-term debt	(1,040,973)	(30,423)	(1,071,396)
Interest payments on long-term debt	(248,464)	-	(248,464)
Net cash provided (used) by capital and related financing activities	<u>(1,607,489)</u>	<u>(106,932)</u>	<u>(1,714,421)</u>
Cash Flows from Investing Activities:			
Interest on investments	<u>1,461</u>	<u>360</u>	<u>1,821</u>
Net increase (decrease) in cash and cash equivalents	2,738,339	346,750	3,085,089
Cash and Cash Equivalents:			
Beginning of year - July 1	<u>5,254,215</u>	<u>2,231,945</u>	<u>7,486,160</u>
End of year - June 30	<u>\$ 7,992,554</u>	<u>\$ 2,578,695</u>	<u>\$ 10,571,249</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	<u>\$ 3,865,219</u>	<u>\$ 690,265</u>	<u>\$ 4,555,484</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	869,921	177,593	1,047,514
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(9,245)	8,150	(1,095)
Increase (decrease) in accounts payable and accrued liabilities	(161,288)	(13,377)	(174,665)
Increase (decrease) in OPEB	79,760	23,474	103,234
Total adjustments	<u>779,148</u>	<u>195,840</u>	<u>974,988</u>
Net cash provided (used) by operating activities	<u>\$ 4,644,367</u>	<u>\$ 886,105</u>	<u>\$ 5,530,472</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, 2013

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 Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double 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 or ancillary units.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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's 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, 2013

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

Sales taxes 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 position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, Deferred Inflows of Resources, and Fund Equity

Deposits and Investments

All deposits of the Town are made in Board-designated official depositories and are secured as required by 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, an 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, 2013

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, 2012.

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.

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 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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Deferred Inflows of Resources

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts, 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.

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 Position

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 intact.

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 require majority action by the governing body.

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 Beach 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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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	\$ 5,858,760
Less:	
Stabilization by State statute	<u>341,500</u>
Total available fund balance	<u>\$ 5,517,260</u>

The Town of Carolina Beach has not adopted a formal fund balance policy.

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 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, 2013, the Town's deposits had a carrying amount of \$3,753,851 and a bank balance of \$3,880,260. Of the bank balance, \$500,000 was covered by Federal depository insurance and the remainder was covered by collateral held under the Pooling Method. As of June 30, 2013, the Town's petty cash totaled \$303.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Investments

At June 30, 2013, the Town had \$11,372,250 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.

Receivables – Allowances for Doubtful Accounts

The receivables shown in Exhibit A at June 30, 2013 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General Fund	\$ 138,176	\$ 154,181	\$ 203,324	\$ 495,681
Allowance for doubtful accounts	-	(5,000)	-	(5,000)
Total-governmental activities	<u>\$ 138,176</u>	<u>\$ 149,181</u>	<u>\$ 203,324</u>	<u>\$ 490,681</u>
Business-Type Activities:				
Utility Fund	<u>\$ 658,486</u>	<u>\$ -</u>	<u>\$ 26,107</u>	<u>\$ 684,593</u>

Due from other governments consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>
Local option sales tax	<u>\$ 203,324</u>	<u>\$ 26,107</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Capital Assets

Primary Government:

Capital asset activity for the primary government for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 2,038,205	\$ -	\$ -	\$ 2,038,205
Depreciable Capital Assets:				
Buildings	5,753,060	-	-	5,753,060
Infrastructure	3,939,016	67,085	-	4,006,101
Equipment	1,687,903	12,856	-	1,700,759
Vehicles and motorized equipment	2,950,986	39,968	-	2,990,954
Total depreciable capital assets	14,330,965	119,909	-	14,450,874
Less Accumulated Depreciation:				
Buildings	1,238,669	101,017	-	1,339,686
Infrastructure	289,225	23,937	-	313,162
Equipment	1,433,498	117,224	-	1,550,722
Vehicles and motorized equipment	2,409,044	197,027	-	2,606,071
Total accumulated depreciation	5,370,436	\$ 439,205	\$ -	5,809,641
Total depreciable capital assets, net	8,960,529			8,641,233
Governmental activity capital assets, net	\$ 10,998,734			\$ 10,679,438

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

Governmental Activities:	
General government	\$ 215,210
Public safety	158,114
Transportation	8,784
Environmental protection	8,784
Cultural and recreation	48,313
Total	\$ 439,205

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Business-Type Activities:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>
Utility Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 98,742	\$ -	\$ -	\$ 98,742
Construction in progress	4,125,394	1,247,382	-	5,372,776
Total non-depreciable capital assets	<u>4,224,136</u>	<u>1,247,382</u>	<u>-</u>	<u>5,471,518</u>
Depreciable Capital Assets:				
Plant and distribution systems	23,991,904	476,934	-	24,468,838
Furniture and maintenance equipment	486,887	22,265	-	509,152
Vehicles	564,027	19,984	-	584,011
Total depreciable capital assets	<u>25,042,818</u>	<u>519,183</u>	<u>-</u>	<u>25,562,001</u>
Less Accumulated Depreciation:				
Plant and distribution systems	7,062,954	762,225	-	7,825,179
Furniture and maintenance equipment	547,320	72,464	-	619,784
Vehicles	337,481	35,232	-	372,713
Total accumulated depreciation	<u>7,947,755</u>	<u>869,921</u>	<u>-</u>	<u>8,817,676</u>
Total depreciable capital assets, net	<u>17,095,063</u>			<u>16,744,325</u>
Utility Fund capital assets, net	<u>21,319,199</u>			<u>22,215,843</u>
Tourism Fund:				
Non-Depreciable Capital Assets:				
Land	1,166,915	-	-	1,166,915
Construction in progress	934,055	-	-	934,055
Total non-depreciable capital assets	<u>2,100,970</u>	<u>-</u>	<u>-</u>	<u>2,100,970</u>
Depreciable Capital Assets:				
Tourism - boardwalk, seawall	3,237,501	59,529	-	3,297,030
Furniture and equipment	122,117	-	-	122,117
Vehicles	252,600	16,980	-	269,580
Total depreciable capital assets	<u>3,612,218</u>	<u>76,509</u>	<u>-</u>	<u>3,688,727</u>
Less Accumulated Depreciation:				
Tourism - boardwalk, seawall	1,996,335	133,195	-	2,129,530
Furniture and equipment	31,688	11,437	-	43,125
Vehicles	93,350	32,961	-	126,311
Total accumulated depreciation	<u>2,121,373</u>	<u>\$ 177,593</u>	<u>\$ -</u>	<u>2,298,966</u>
Total depreciable capital assets, net	<u>1,490,845</u>			<u>1,389,761</u>
Tourism Fund capital assets, net	<u>3,591,815</u>			<u>3,490,731</u>
Total business-type activities	<u>\$ 24,911,014</u>			<u>\$ 25,706,574</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

B. Liabilities

Payables at the government-wide level at June 30, 2013, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:			
General Fund	\$ 130,154	\$ 14,586	\$ 144,740
Business-Type Activities:			
Tourism Fund	\$ 32,180	\$ 50,051	\$ 82,231
Utility Fund	21,665	-	21,665
Total business-type activities	<u>\$ 53,845</u>	<u>\$ 50,051</u>	<u>\$ 103,896</u>

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 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.35% 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, 2013, 2012, and 2011 were \$288,488, \$261,546, and \$261,546, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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% 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, 2011, the separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>29</u>
Total	<u>30</u>

A separate report was not issued for the Plan.

Summary of Significant Accounting Policies

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25%-7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases. The unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2011 was 19 years.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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

Annual required contribution	\$	37,792
Interest on net pension obligation		3,048
Adjustment to annual required contribution		<u>(3,212)</u>
Annual pension cost		37,628
Contributions made		<u>24,525</u>
Increase (decrease) in net pension obligations		13,103
Net Pension Obligation:		
Beginning of year - July 1		<u>76,210</u>
End of year - June 30	\$	<u><u>89,313</u></u>

Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 44,574	60.59%	\$ 58,865
2012	40,618	57.30%	76,210
2013	37,628	65.18%	89,313

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$289,045. The covered payroll (annual payroll of active employees covered by the plan) was \$1,181,224, and the ratio of the UAAL to the covered payroll was 24.47%.

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 5% 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, 2013 were \$97,474, which consisted of \$65,528 from the Town and \$31,946 from the law enforcement officers.

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 30 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, 2011, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	90
Active members	<u>14</u>
Total	<u>104</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 retire. 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The current annual required contribution rate (ARC) is 9.66% of annual covered payroll. For fiscal year 2013, the Town contributed \$65,825, or 1.83%, of annual covered payroll. Contributions by employees for the fiscal year ended June 30, 2013 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.

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 No. 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 (30) 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	\$	348,083
Interest on net OPEB obligation		23,752
Adjustment to annual required contribution		<u>(20,492)</u>
Annual OPEB cost (expense)		351,343
Contributions made		<u>65,825</u>
Increase (decrease) in net OPEB obligation		285,518
Net Pension Obligation:		
Beginning of year - July 1		<u>883,290</u>
End of year - June 30	\$	<u><u>1,168,808</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 were as follows:

Year Ended June 30	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
2011	\$ 337,128	11.69%	\$ 593,802
2012	351,343	17.60%	883,290
2013	351,343	18.74%	1,168,808

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

As of December 31, 2011, 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 \$3,087,723. The covered payroll (annual payroll of active employees covered by the plan) was \$3,604,502, and the ratio of the UAAL to the covered payroll was 85.7%. 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.

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, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 4.0% investment rate of return, which included an inflation component of 3.0% and (b) a 9.5% - 5.0% medical cost trend rate with 2018, 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, 2011, was 30 years.

Deferred Inflows of Resources

	<u>Unavailable Revenues</u>	<u>Unearned Revenues</u>
Taxes receivable	\$ 149,181	\$ -

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

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, 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.

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, 2013, 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, 2013 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 2012 to 2028. The outstanding balances are:

\$ 3,515,341

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2014	\$ 523,529	\$ 126,759
2015	604,357	90,813
2016	607,356	72,438
2017	457,700	54,028
2018	465,259	48,424
2019-2023	428,570	45,240
2024-2028	428,570	17,400
Total	\$ 3,515,341	\$ 455,102

Business-Type Activities:

Installment purchase contracts at June 30, 2013 are comprised of the following:

The Water and Sewer Fund currently has twelve installment purchase contracts ranging from 3% to 6% interest-bearing notes. The note maturities range from 2012 to 2026. The outstanding balances are:

\$ 6,387,286

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Utility Fund	
	Principal	Interest
2014	\$ 771,117	\$ 285,642
2015	742,525	225,652
2016	695,825	198,526
2017	635,652	172,525
2018	605,256	158,562
2019-2023	2,195,256	475,258
2024-2026	741,655	135,265
Total	\$ 6,387,286	\$ 1,651,430

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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, 2013 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>\$ 94,000</u>
--	------------------

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 48,000	\$ 4,700	\$ 52,700
2015	46,000	2,300	48,300
Total	\$ 94,000	\$ 7,000	\$ 101,000

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, 2013 was \$927,310.

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 stormwater 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, 2013 was \$695,876.

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 Boulevard 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, 2013 was \$349,569.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2014	\$ 154,228	\$ 23,832
2015	154,228	21,449
2016	154,228	19,066
2017	154,228	16,682
2018	154,228	14,299
2019-2023	771,140	35,748
2024-2028	307,485	-
2029-2030	122,990	-
Total	\$ 1,972,755	\$ 131,076

At June 30, 2013, the Town had a legal debt margin of \$171,376,105.

Changes in Long-Term Liabilities

A summary of long-term debt is as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion
Governmental Activities:					
Installment purchases	\$ 2,867,695	\$ 1,239,148	\$ (591,502)	\$ 3,515,341	\$ 523,529
Compensated absences	270,801	265,700	(285,756)	250,745	265,700
OPEB	576,734	226,487	(44,203)	759,018	-
Net pension obligation	76,210	37,628	(24,525)	89,313	-
Total	\$ 3,791,440	\$ 1,768,963	\$ (945,986)	\$ 4,614,417	\$ 789,229
Business-Type Activities:					
Installment purchases	\$ 6,892,791	\$ 341,668	\$ (847,173)	\$ 6,387,286	\$ 771,117
General obligation bonds	142,000	-	(48,000)	94,000	48,000
Revolving loans	2,148,978	-	(176,223)	1,972,755	154,228
OPEB	306,556	128,826	(25,592)	409,790	-
Total	\$ 9,490,325	\$ 470,494	\$ (1,096,988)	\$ 8,863,831	\$ 973,345

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, 2013

Interfund Activity

Transfers to/from Other Funds

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

From Tourism Fund to General Fund (to fund operations)	\$ 432,783
From the Utility Fund to the General Fund (to fund operations)	<u>300,000</u>
Total	<u>\$ 732,783</u>

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.

6. Change in Accounting Principles

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position. Additionally, GASB 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

TOWN OF CAROLINA BEACH, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

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	\$ -	\$ 217,781	\$ 217,781	0.00%	\$ 1,213,348	17.95%
12/31/2008	-	218,366	218,366	0.00%	1,154,049	18.92%
12/31/2009	-	320,427	320,427	0.00%	1,332,567	24.05%
12/31/2010	-	318,181	318,181	0.00%	1,255,618	25.34%
12/31/2011	-	289,045	289,045	0.00%	1,181,224	24.47%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)		Percentage of ARC Contributed
2010	\$	30,738	71.60%
2011		44,720	60.59%
2012		41,187	56.51%
2013		37,792	64.89%

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	12/31/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	19 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5%
Projected salary increases*	4.25 - 7.85%
Cost-of-living adjustments	N/A

*Includes inflation at 3.00%

TOWN OF CAROLINA BEACH, NORTH CAROLINA

**OTHER POST-EMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013**

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)			
12/31/2006	\$ -	\$ 3,424,206	\$ 3,424,206	0.00%	\$ 3,940,002	86.90%
12/31/2009	-	2,943,234	2,943,234	0.00%	4,273,355	68.90%
12/31/2011	-	3,087,723	3,087,723	0.00%	3,604,502	85.70%

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%
2012	348,083	17.77%
2013	348,083	18.91%

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	12/31/2011
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 *	4.0%
Medical cost trend rate	9.5% - 5.0%
Year of ultimate trend rate	2018

* Includes inflation at 3.00%

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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 3,813,315	
Penalties and interest		15,964	
Total	<u>\$ 3,851,000</u>	<u>3,829,279</u>	<u>\$ (21,721)</u>
Other Taxes and Licenses:			
Auto licenses		32,547	
Privilege licenses		97,109	
Total	<u>86,100</u>	<u>129,656</u>	<u>43,556</u>
Unrestricted Intergovernmental:			
Local option sales taxes		1,412,504	
Utility franchise tax		332,379	
Cable franchise tax		102,686	
Total	<u>1,506,344</u>	<u>1,847,569</u>	<u>341,225</u>
Restricted Intergovernmental:			
Powell Bill allocation		183,435	
Other grants		100,000	
Total	<u>219,452</u>	<u>283,435</u>	<u>63,983</u>
Permits and Fees:			
Building permits		155,462	
Inspection fees		32,485	
Total	<u>84,200</u>	<u>187,947</u>	<u>103,747</u>
Sales and Services:			
Rents		75,153	
Recreation fees		61,755	
Court fees		3,262	
Refuse fees		1,436,251	
Total	<u>1,508,500</u>	<u>1,576,421</u>	<u>67,921</u>
Investment Earnings	<u>3,500</u>	<u>6,525</u>	<u>3,025</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Miscellaneous:			
Other miscellaneous		493,676	
Total	<u>640,660</u>	<u>493,676</u>	<u>(146,984)</u>
 Total revenues	 <u>7,899,756</u>	 <u>8,354,508</u>	 <u>454,752</u>
Expenditures:			
General Government:			
Salaries and employee benefits		57,985	
Other operating expenditures		116,433	
Capital outlay		361,897	
Total	<u>573,602</u>	<u>536,315</u>	<u>37,287</u>
Administration:			
Salaries and employee benefits		274,808	
Other operating expenditures		66,007	
Capital outlay		3,053	
Total	<u>354,692</u>	<u>343,868</u>	<u>10,824</u>
Clerk:			
Salaries and employee benefits		116,967	
Other operating expenditures		51,883	
Total	<u>177,380</u>	<u>171,207</u>	<u>6,173</u>
Finance:			
Salaries and employee benefits		139,484	
Other operating expenditures		146,168	
Total	<u>311,222</u>	<u>292,702</u>	<u>18,520</u>
Human Resources:			
Salaries and employee benefits		213,713	
Other operating expenditures		65,405	
Total	<u>293,207</u>	<u>279,992</u>	<u>13,215</u>
Legal:			
Contracted services	<u>98,384</u>	<u>97,559</u>	<u>825</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Public Works Administration:			
Salaries and employee benefits		34,480	
Other operating expenditures		<u>32,446</u>	
Total	<u>73,046</u>	<u>66,926</u>	<u>6,120</u>
Planning:			
Salaries and employee benefits		342,944	
Other operating expenditures		<u>33,232</u>	
Total	<u>386,742</u>	<u>376,176</u>	<u>10,566</u>
Total general government	<u>2,268,275</u>	<u>2,164,745</u>	<u>103,530</u>
Public Safety:			
Police:			
Salaries and employee benefits		1,427,387	
Other operating expenditures		153,425	
Capital outlay		<u>69,034</u>	
Total	<u>1,699,730</u>	<u>1,649,846</u>	<u>49,884</u>
Fire:			
Salaries and employee benefits		514,348	
Other operating expenditures		119,232	
Capital outlay		<u>178,622</u>	
Total	<u>972,588</u>	<u>812,202</u>	<u>160,386</u>
Total public safety	<u>2,672,318</u>	<u>2,462,048</u>	<u>210,270</u>
Transportation:			
Streets and Highways:			
Street maintenance		<u>21,439</u>	
Total	<u>178,000</u>	<u>26,450</u>	<u>151,550</u>
Fleet Maintenance:			
Salaries and employee benefits		50,091	
Other operating expenditures		<u>122,387</u>	
Total	<u>217,294</u>	<u>172,478</u>	<u>44,816</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, 2013

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Environmental Protection:			
Solid Waste:			
Salaries and employee benefits		327,483	
Other operating expenditures		2,010,354	
Capital outlay		55,978	
Total	<u>2,430,909</u>	<u>2,393,815</u>	<u>37,094</u>
Cultural and Recreation:			
Parks and Recreation:			
Salaries and employee benefits		270,052	
Other operating expenditures		100,412	
Capital outlay		64,731	
Total	<u>519,350</u>	<u>435,195</u>	<u>84,155</u>
Debt Service:			
Principal retirement		591,502	
Interest and other charges		200,770	
Total	<u>793,806</u>	<u>792,272</u>	<u>1,534</u>
Total expenditures	<u>9,079,952</u>	<u>8,447,003</u>	<u>632,949</u>
Revenues over (under) expenditures	<u>(1,180,196)</u>	<u>(92,495)</u>	<u>1,087,701</u>
Other Financing Sources (Uses):			
Operating transfers in (out)	757,783	732,783	(25,000)
Long-term debt issued	-	1,239,148	1,239,148
Appropriated fund balance	422,413	-	(422,413)
Total other financing sources (uses)	<u>1,180,196</u>	<u>1,971,931</u>	<u>791,735</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>-</u>	<u>1,879,436</u>	<u>1,879,436</u>
Net change in fund balance	<u>\$ -</u>	<u>1,879,436</u>	<u>\$ 1,879,436</u>
Fund Balance:			
Beginning of year - July 1		<u>3,979,324</u>	
End of year - June 30		<u>\$ 5,858,760</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, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Parking		\$ 416,801	
Dockage		150,424	
Park rental		901,502	
ABC revenues		261,930	
Room occupancy tax		292,430	
Miscellaneous		56,470	
Total	<u>\$ 1,989,915</u>	<u>2,079,557</u>	<u>\$ 89,642</u>
Non-Operating Revenues:			
Interest	<u>350</u>	<u>360</u>	<u>10</u>
Total revenues	<u>1,990,265</u>	<u>2,079,917</u>	<u>89,652</u>
Expenditures:			
Lifeguards:			
Salaries and employee benefits		261,993	
Other operating expenditures		36,042	
Total	<u>394,323</u>	<u>306,621</u>	<u>87,702</u>
Tourism:			
Salaries and employee benefits		11,991	
Other operating expenditures		17,954	
Total	<u>171,509</u>	<u>47,135</u>	<u>124,374</u>
Parking:			
Salaries and employee benefits		244,997	
Other operating expenditures		10,823	
Total	<u>241,201</u>	<u>291,570</u>	<u>(50,369)</u>
Beach Maintenance:			
Salaries and employee benefits		283,326	
Other operating expenditures		273,865	
Capital outlay		72,708	
Total	<u>754,170</u>	<u>629,899</u>	<u>124,271</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, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Repairs and Maintenance	24,550	12,983	11,567
Total operating expenditures	<u>1,585,753</u>	<u>1,288,208</u>	<u>297,545</u>
Debt Service:			
Principal retirement		<u>30,423</u>	
Total	<u>60,000</u>	<u>30,423</u>	<u>29,577</u>
Total expenditures	<u>1,645,753</u>	<u>1,318,631</u>	<u>327,122</u>
Revenues over (under) expenditures	<u>344,512</u>	<u>761,286</u>	<u>416,774</u>
Other Financing Sources (Uses):			
Appropriated fund balance	88,271	-	(88,271)
Transfer to General Fund	<u>(432,783)</u>	<u>(432,783)</u>	<u>-</u>
Total other financing sources (uses)	<u>(344,512)</u>	<u>(432,783)</u>	<u>(88,271)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 328,503</u>	<u>\$ 328,503</u>
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 328,503	
Reconciling items:			
Principal retirement		30,423	
Capital outlay		76,509	
Depreciation		<u>(177,593)</u>	
Change in net assets		<u>\$ 257,842</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, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating Revenues:			
Customer charges:			
Water and sewer charges		\$ 3,494,956	
User fees		376,132	
Other municipals		319,622	
Stormwater fees		<u>854,878</u>	
Total	<u>\$ 4,471,100</u>	<u>5,045,588</u>	<u>\$ 574,488</u>
Other operating revenues:			
Water and sewer taps	40,000	63,660	23,660
Other operating revenues	<u>963,000</u>	<u>2,347,095</u>	<u>1,384,095</u>
Total other operating revenues	<u>1,003,000</u>	<u>2,410,755</u>	<u>1,407,755</u>
Non-Operating Revenues:			
Interest	<u>1,000</u>	<u>1,461</u>	<u>461</u>
Total revenues	<u>5,475,100</u>	<u>7,457,804</u>	<u>1,982,704</u>
Expenditures:			
Water and Sewer Administration:			
Salaries and employee benefits		224,963	
Other operating expenditures		<u>139,528</u>	
Total	<u>404,904</u>	<u>364,491</u>	<u>40,413</u>
Facilities and Equipment:			
Salaries and employee benefits		48,769	
Other operating expenditures		<u>141,965</u>	
Total	<u>212,848</u>	<u>190,734</u>	<u>22,114</u>
Water Treatment and Distribution:			
Salaries and employee benefits		222,143	
Chemicals		46,281	
Utilities		132,898	
Other operating expenditures		<u>107,073</u>	
Total	<u>602,175</u>	<u>508,395</u>	<u>93,780</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, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Water Distribution:			
Salaries and employee benefits		89,996	
Utilities		53,414	
Other operating expenditures		<u>263,569</u>	
Total	<u>654,063</u>	<u>406,979</u>	<u>247,084</u>
Waste Collection and Treatment:			
Sewer Collection System:			
Salaries and employee benefits		444,609	
Other operating expenditures		<u>167,153</u>	
Total	<u>748,096</u>	<u>611,762</u>	<u>136,334</u>
Stormwater Drainage:			
Salaries and employee benefits		277,890	
Other operating expenditures		<u>64,154</u>	
Total	<u>393,234</u>	<u>342,044</u>	<u>51,190</u>
Repairs and Maintenance			
	<u>371,630</u>	<u>296,798</u>	<u>74,832</u>
Total operating expenditures	<u>3,386,950</u>	<u>2,721,203</u>	<u>665,747</u>
Debt Service:			
Interest expense		248,464	
Principal retirement		<u>1,040,973</u>	
Total	<u>1,354,542</u>	<u>1,289,437</u>	<u>65,105</u>
Capital Outlay:			
System improvements	<u>1,339,153</u>	<u>659,720</u>	<u>679,433</u>
Total expenditures	<u>6,080,645</u>	<u>4,670,360</u>	<u>1,410,285</u>
Revenues over (under) expenditures	<u>(605,545)</u>	<u>2,787,444</u>	<u>3,392,989</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, 2013**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Appropriated fund balance	905,545	-	(905,545)
Loan proceeds	-	341,668	341,668
Transfer to General Fund	(300,000)	(300,000)	-
Total other financing sources (uses)	<u>605,545</u>	<u>41,668</u>	<u>(563,877)</u>

Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 2,829,112</u>	<u>\$ 2,829,112</u>
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**Reconciliation from Budgetary Basis
(Modified Accrual) to Full Accrual:**

Revenues and other financing sources over (under) expenditures and other financing uses	\$ 2,829,112
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Reconciling items:

Capital Project Fund - capital grants	-	
Capital Project Fund - non-capital expenses	-	
Transfer - Capital Project Fund	-	
Loan proceeds	(341,668)	
Principal retirement	1,040,973	
Capital outlay	659,720	1,106,845
Depreciation	(869,921)	
Change in net assets	<u>\$ 3,318,216</u>	

TOWN OF CAROLINA BEACH, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2013

	Project Authorization	Prior Years	Actual	
			Current Year	Total to Date
Expenditures:				
Lake Park Rehabilitation	\$ 3,000,000	\$ 2,956,242	\$ -	\$ 2,956,242
Stormwater	4,500,000	3,283,954	1,106,845	4,390,799
Total expenditures	<u>7,500,000</u>	<u>6,240,196</u>	<u>1,106,845</u>	<u>7,347,041</u>
Revenues over (under) expenditures	<u>(7,500,000)</u>	<u>(6,240,196)</u>	<u>(1,106,845)</u>	<u>(7,347,041)</u>
Other Financing Sources (Uses):				
Long-term borrowing issued	6,000,000	4,789,975	-	4,789,975
Transfers in (out)	1,500,000	455,314	-	455,314
Total other financing sources (uses)	<u>7,500,000</u>	<u>5,245,289</u>	<u>-</u>	<u>5,245,289</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (994,907)</u>	<u>\$ (1,106,845)</u>	<u>\$ (2,101,752)</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE

JUNE 30, 2013

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2012</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	\$ -	\$ 3,837,020	\$ (3,773,454)	\$ 63,566
2011-2012	59,549	-	(41,951)	17,598
2010-2011	17,016	-	(5,978)	11,038
2009-2010	10,915	-	(2,576)	8,339
2008-2009	7,696	-	(324)	7,372
2007-2008	8,568	-	(437)	8,131
2006-2007	10,354	-	(228)	10,126
2005-2006	8,292	-	(66)	8,226
2004-2005	7,761	-	(84)	7,677
2003-2004	12,247	-	(139)	12,108
2002-2003	7,082	-	(7,082)	-
Total	<u>\$ 149,480</u>	<u>\$ 3,837,020</u>	<u>\$ (3,832,319)</u>	154,181
Less: allowance for uncollectible ad valorem taxes receivable				<u>5,000</u>
Ad valorem taxes receivable, net				<u>\$ 149,181</u>
Reconciliation of Collections and Credits with Revenues:				
Ad valorem taxes:				
General Fund				\$ 3,829,279
Reconciling items:				
Releases and refunds and other adjustments				(4,042)
Amounts written off for tax years per statute of limitations				<u>7,082</u>
Total collections and credits				<u>\$ 3,832,319</u>

TOWN OF CAROLINA BEACH, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Total Levy</u>	
				<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$2,126,988,709	\$ 0.18	\$ 3,722,230	\$ 3,722,230	\$ -
Registered motor vehicles taxed at prior year's rate	63,573,714	0.18	111,254	-	111,254
Penalties	-		3,656	3,656	-
Total original levy	<u>2,190,562,423</u>		<u>3,837,140</u>	<u>3,725,886</u>	<u>111,254</u>
Discoveries:					
Current year levy	-		7,405	7,405	-
Abatements:					
Current year levy	<u>(4,419,343)</u>		<u>(7,525)</u>	<u>(7,525)</u>	-
Total property valuation	<u>\$2,186,143,080</u>				
Net Levy			3,837,020	3,725,766	111,254
Uncollected taxes at June 30, 2013			<u>(63,566)</u>	<u>(47,089)</u>	<u>(16,477)</u>
Current Year's Taxes Collected			<u>\$ 3,773,454</u>	<u>\$ 3,678,677</u>	<u>\$ 94,777</u>
Current Levy Collection Percentage			<u>98.34%</u>	<u>98.74%</u>	<u>85.19%</u>

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

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, responses, and questioned costs, we identified deficiencies in internal control 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 a combination of deficiencies, in internal control, such that there is 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 described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Town of Carolina Beach's Responses to Findings

The Town of Carolina Beach's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses, and Questioned Costs. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
January 31, 2014

TOWN OF CAROLINA BEACH, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency identified that are not considered to be material weaknesses?	None reported
Non-compliance material to financial statements noted?	Yes

TOWN OF CAROLINA BEACH, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

1. Financial Statement Findings

2013-001:

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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

2. Financial Statement Findings (continued)

2013-002:

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.

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

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

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.

Name of 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.

TOWN OF CAROLINA BEACH, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Finding 2012-01 – Repeated in the current year as finding 2013-001.

Finding 2012-02 – Repeated in the current year as finding 2013-002.

Finding 2012-03 – Corrected in current year.