

TOWN OF SURF CITY, NORTH CAROLINA

Report of Audit

For the Fiscal Year Ended June 30, 2012

S. PRESTON DOUGLAS & ASSOCIATES, LLP
Certified Public Accountants



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Independent Auditor's Report

To the Honorable Mayor
And Members of Town Council
Surf City, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Surf City, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Surf City, North Carolina's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012 on our consideration of Town of Surf City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principals generally accepted in the United States of America require that Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and Schedules of Employer Contributions, respectively, be presented to supplement the basic financial statements. Such information, although not 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, and historical context. We have applied certain limited procedures to the required supplemental 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Surf City's basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying Schedule of Expenditures of State awards is presented as for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of State awards 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 combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of State awards are stated in all material respects in relation to the basic financial statements as a whole.

S. Preston Douglas & Associates, LLP

July 27, 2012

Management Discussion and Analysis

Management's Discussion and Analysis

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

Financial Highlights

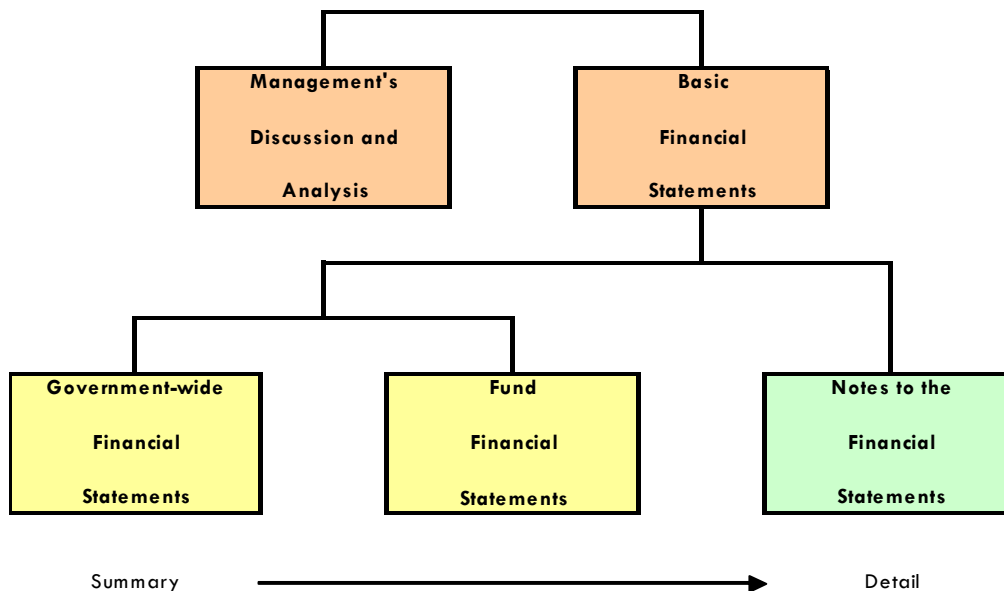
- The assets of the Town of Surf City exceeded its liabilities at the close of the fiscal year by \$40,693,714.
- The government's total net assets increased by \$1,829,744, primarily due to increases in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Surf City's governmental funds reported combined ending fund balances of \$10,366,890 an increase of \$596,134 in comparison with the prior year. Approximately 15.89 percent of this total amount, or \$1,647,534, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,759,162, or 33.09 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Surf City'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 Surf City.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (pages 20 through 23) 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 (pages 24 through 43) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements (3) the proprietary fund statements and (4) the fiduciary fund statements.

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

Government-Wide Financial Statements

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

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

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

The government-wide financial statements are on pages 24 through 43 of this report.

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 Surf City, 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 Town of Surf City can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The

Management's Discussion and Analysis (Continued)

relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements. The Town of Surf City 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 Surf City has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Surf City uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Surf City has one fiduciary fund, which is an agency fund.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Surf City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 69 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 44 through 67 of this report.

Government-Wide Financial Analysis

The Town of Surf City's Net Assets

Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 10,573,725	\$ 9,976,987	\$ 939,905	\$ 556,337	\$ 11,513,630	\$ 10,533,324
Capital assets	14,651,314	14,580,124	42,670,598	40,097,297	57,321,912	54,677,421
Total assets	25,225,039	24,557,111	43,610,503	40,653,634	68,835,542	65,210,745
Long-term liabilities outstanding	5,143,492	5,454,410	20,448,378	18,280,508	25,591,870	23,734,918
Other liabilities	804,589	863,694	1,745,369	1,748,163	2,549,958	2,611,857
Total liabilities	5,948,081	6,318,104	22,193,747	20,028,671	28,141,828	26,346,775
Net assets:						
Invested in capital assets, net of related debt	8,847,605	8,429,426	22,247,941	20,400,335	31,095,546	28,829,761
Restricted	1,647,534	1,288,847	-	-	1,647,534	1,288,847
Unrestricted	8,781,819	8,520,734	(831,185)	224,628	7,950,634	8,745,362
Total net assets	\$ 19,276,958	\$ 18,239,007	\$ 21,416,756	\$ 20,624,963	\$ 40,693,714	\$ 38,863,970

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Surf City exceeded liabilities by \$40,693,714 as of June 30, 2012. The Town's net assets increased by \$1,829,744 for the fiscal year ended June 30, 2012. However, the largest portion (76%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Surf City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Surf City'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 Surf City's net assets \$1,647,534 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,950,634 is unrestricted. Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.37%

Management's Discussion and Analysis (Continued)

The Town of Surf City's Changes in Net Assets

Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 732,455	\$ 662,672	\$ 3,491,603	\$ 3,130,372	\$ 4,224,058	\$ 3,793,044
Operating grants and contributions	293,743	235,218	-	-	293,743	235,218
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	3,648,239	3,059,680	-	-	3,648,239	3,059,680
Local Option Sales Taxes	831,169	897,127	-	-	831,169	897,127
Other taxes	1,250,239	1,120,901	-	-	1,250,239	1,120,901
ABC Profit Distribution	37,855	29,073	-	-	37,855	29,073
Other	204,825	53,992	288,068	143,629	492,893	197,621
Total revenues	6,998,525	6,058,663	3,779,671	3,274,001	10,778,196	9,332,664
Expenses:						
Governing body	103,387	95,455	-	-	103,387	95,455
Administration	222,351	211,796	-	-	222,351	211,796
Elections	1,967	-	-	-	1,967	-
Finance	299,899	317,781	-	-	299,899	317,781
Insurance	170,622	181,474	-	-	170,622	181,474
Legal	16,385	12,400	-	-	16,385	12,400
Public buildings	160,146	174,500	-	-	160,146	174,500
Public works	19,243	12,059	-	-	19,243	12,059
Police	1,628,630	1,634,230	-	-	1,628,630	1,634,230
Fire	746,798	704,553	-	-	746,798	704,553
Community development	269,912	226,747	-	-	269,912	226,747
Street Department	336,805	311,575	-	-	336,805	311,575
Sanitation	729,085	638,536	-	-	729,085	638,536
Parks and recreation	298,810	320,867	-	-	298,810	320,867
Beach and strand	419,952	339,897	-	-	419,952	339,897
Tourism	147,383	143,950	-	-	147,383	143,950
Hurricane	13,319	-	-	-	13,319	-
Interest on long-term debt	225,880	262,004	-	-	225,880	262,004
Water and wastewater	-	-	3,137,878	3,087,605	3,137,878	3,087,605
Total expenses	5,810,574	5,587,824	3,137,878	3,087,605	8,948,452	8,675,429
Increase(Decrease) in net assets before transfers	1,187,951	470,839	641,793	186,396	1,829,744	657,235
Transfers	(150,000)	(120,000)	150,000	120,000	-	-
Change in net assets	1,037,951	350,839	791,793	306,396	1,829,744	657,235
Net assets, July 1	18,239,007	17,888,168	20,624,963	20,318,567	38,863,970	38,206,735
Net assets, June 30	\$ 19,276,958	\$ 18,239,007	\$ 21,416,756	\$ 20,624,963	\$ 40,693,714	\$ 38,863,970

Governmental activities. Governmental activities increased the Town's net assets by \$1,037,951, thereby accounting for 57% of the total growth in the net assets of the Town of Surf City. Key element of this increase is as follows:

- Tax revenues increased during the year.

Management's Discussion and Analysis (Continued)

Business-type activities. Business-type activities increased the Town of Surf City's net assets by \$791,793, accounting for 43% of the total growth in the government's net assets. Key element of this increase is as follows:

- Charges for services increased during the year.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Surf City'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 Surf City's financing requirements. Specifically, unreserved 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 Surf City. At the end of the current fiscal year, Town of Surf City's fund balance available in the General Fund was \$2,625,111, while total fund balance reached \$3,190,240.

At June 30, 2012, the governmental funds of Town of Surf City reported a combined fund balance of \$10,366,890, a 6.1 percent increase over last year. Included in this change in fund balance are increase in fund balance in the General, and non-major funds.

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

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

Proprietary Funds. The Town of Surf City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$(831,185). The total change in net assets for the water and sewer fund was an increase of \$791,793. The change in net assets in the Water and Sewer Fund is a result of the charges for services for the year.

Capital Asset and Debt Administration

Capital assets. The Town of Surf City’s investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$54,321,912 (net of accumulated depreciation). These assets include buildings, land, construction in progress, vehicles, infrastructure, and equipment.

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

- Water System acquisition in the Water and Sewer Fund of \$3,433,035.
- Fire truck purchase of \$465,888 in governmental-type activities.

The Town of Surf City's Capital Assets

Figure 4

(Net of depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 8,136,999	\$ 8,136,999	\$ 5,245,933	\$ 5,245,933	\$ 13,382,932	\$ 13,382,932
Buildings	4,395,526	4,516,328	-	-	4,395,526	4,516,328
Infrastructure	1,044,064	1,086,279	-	-	1,044,064	1,086,279
Vehicles	530,337	176,412	23,795	33,157	554,132	209,569
Plant and Distribution	-	-	37,363,795	34,782,422	37,363,795	34,782,422
Equipment	544,388	664,106	37,075	35,785	581,463	699,891
Total	\$ 14,651,314	\$ 14,580,124	\$ 42,670,598	\$ 40,097,297	\$ 57,321,912	\$ 54,677,421

Additional information on the Town’s capital assets can be found on pages 53-54 in the Notes to the Financial Statements.

Long-term Debt. As of June 30, 2012, the Town of Surf City had total installment purchase obligations and capital lease obligations outstanding of \$27,643,038.

Management's Discussion and Analysis (Continued)

The Town of Surf City's Outstanding Debt Installment Purchases and Capital Leases

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Installment purchases	\$ 5,244,039	\$ 5,907,811	\$ 21,839,329	\$ 19,648,463	\$ 27,083,368	\$ 25,556,274
Capital leases	559,670	241,887	-	48,499	559,670	290,386
Total	\$ 5,803,709	\$ 6,149,698	\$ 21,839,329	\$ 19,696,962	\$ 27,643,038	\$ 25,846,660

The Town of Surf City's total debt increased by \$1,796,378 (6.95%) during the fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Surf City is \$103,236,636. The Town of Surf City does not have any authorized but un-issued debt at June 30, 2012.

Additional information regarding the Town of Surf City's long-term debt can be found beginning on page 61 in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

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

- Tourism. The Town's economy depends heavily on beach tourism.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities. Property taxes and revenues from other taxes are expected to lead budgeted revenue. The Town will use these increases in revenues to finance programs currently in place.

Business-type Activities. Utility revenue in the Town will increase for the next year.

Requests for Information

This report is designed to provide an overview of the Town 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 following:

Jane Kirk
Finance Officer
Town of Surf City
214 N. New River Drive
Surf City, NC 28445



Basic Financial Statements

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Net Assets

June 30, 2012

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 8,615,932	\$ 389,838	\$ 9,005,770
Receivables (net):			
Ad Valorem Taxes	156,407	-	156,407
Accommodations Taxes	266,749	-	266,749
Interest	17,902	-	17,902
Accounts	91,482	550,067	641,549
Due from Other Governments	533,683	-	533,683
Restricted Cash and Cash Equivalents	891,570	-	891,570
Total Current Assets	<u>10,573,725</u>	<u>939,905</u>	<u>11,513,630</u>
Noncurrent Assets:			
Capital Assets			
Land, Nondepreciable Improvements, and Construction in Progress	8,136,999	5,245,933	13,382,932
Other Capital Assets, Net of Depreciation	<u>6,514,315</u>	<u>37,424,665</u>	<u>43,938,980</u>
Total Noncurrent Assets	<u>14,651,314</u>	<u>42,670,598</u>	<u>57,321,912</u>
Total Assets	<u>\$ 25,225,039</u>	<u>\$ 43,610,503</u>	<u>\$ 68,835,542</u>

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Net Assets (Continued)

June 30, 2012

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
LIABILITIES			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 31,145		\$ 31,145
Customer Deposits	-	305,263	305,263
Unearned Revenue	1,381	23,434	24,815
Current Portion of Long-Term Liabilities	772,063	1,416,672	2,188,735
Total Current Liabilities	804,589	1,745,369	2,549,958
Long-Term Liabilities:			
Due in More Than One year	5,143,492	20,448,378	25,591,870
Total Liabilities	5,948,081	22,193,747	28,141,828
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	8,847,605	22,247,941	31,095,546
Restricted for:			
Stabilization by State Statute	565,129	-	565,129
Transportation	196,700	-	196,700
Public Safety	-	-	-
Tourism	885,705	-	885,705
Unrestricted	8,781,819	(831,185)	7,950,634
Total Net Assets	\$ 19,276,958	\$ 21,416,756	\$ 40,693,714

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Governing Body	\$ 103,387	\$ -	\$ -	\$ -
Administration	222,351	40,307	-	-
Elections	1,967	-	-	-
Finance	299,899	-	-	-
Insurance	170,622	-	-	-
Legal	16,385	-	-	-
Public Buildings	160,146	-	-	-
Public Works	19,243	-	-	-
Police	1,628,630	-	145	-
Fire	746,798	-	2,449	-
Community Development	269,912	140,632	-	-
Street Department	336,805	-	78,927	-
Sanitation	729,085	551,516	1,281	-
Parks and Recreation	298,810	-	-	-
Beach and Strand	419,952	-	210,941	-
Tourism	147,383	-	-	-
Hurricane	13,319	-	-	-
Interest on long-term debt	225,880	-	-	-
Total Governmental Activities	5,810,574	732,455	293,743	-
Total Primary Government	5,810,574	732,455	293,743	-
Business-Type Activities:				
Water and Wastewater	3,137,878	3,491,603	-	-
Total Business-Type Activities	\$ 3,137,878	\$ 3,491,603	\$ -	\$ -

General Revenues:

- Property Taxes, Levied for General Purpose
- Accommodations Tax
- Local Option Sales Tax
- Utility Franchise Tax
- Telecommunications Tax
- Beer and Wine Tax
- Video Franchise Tax
- ABC Profit Distributions
- Investment Earnings
- Miscellaneous

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Totals
\$ (103,387)	\$ -	\$ (103,387)
(182,044)	-	(182,044)
(1,967)	-	(1,967)
(299,899)	-	(299,899)
(170,622)	-	(170,622)
(16,385)	-	(16,385)
(160,146)	-	(160,146)
(19,243)	-	(19,243)
(1,628,485)	-	(1,628,485)
(744,349)	-	(744,349)
(129,280)	-	(129,280)
(257,878)	-	(257,878)
(176,288)	-	(176,288)
(298,810)	-	(298,810)
(209,011)	-	(209,011)
(147,383)	-	(147,383)
(13,319)	-	(13,319)
(225,880)	-	(225,880)
<u>(4,784,376)</u>	<u>-</u>	<u>(4,784,376)</u>
(4,784,376)	-	(4,784,376)
-	353,725	353,725
-	353,725	353,725
3,648,239	-	3,648,239
1,008,944	-	1,008,944
831,169	-	831,169
136,377	-	136,377
25,238	-	25,238
8,063	-	8,063
71,617	-	71,617
37,855	-	37,855
4,755	8	4,763
200,070	288,060	488,130
(150,000)	150,000	-
<u>5,822,327</u>	<u>438,068</u>	<u>6,260,395</u>
1,037,951	791,793	1,829,744
18,239,007	20,624,963	38,863,970
<u>\$ 19,276,958</u>	<u>\$ 21,416,756</u>	<u>\$ 40,693,714</u>

TOWN OF SURF CITY, NORTH CAROLINA

Balance Sheet
 Governmental Funds
 June 30, 2012

	<u>Major Funds</u>			
	<u>General</u>	<u>Beach Renourishment Fund</u>	<u>Accommodations Tax Fund</u>	<u>Total Non-Major Funds</u>
ASSETS				
Cash and Investments	\$ 2,460,837	\$ 5,031,204	\$ -	\$ 1,123,891
Receivables (net):				
Ad Valorem Taxes	156,407	-	-	-
Accommodations Tax	-	75,814	190,935	-
Accounts	91,482	-	-	-
Due from Other Governments	473,647	60,036	-	-
Restricted Cash and Investments	196,700	-	694,870	-
Total Assets	<u>\$ 3,379,073</u>	<u>\$ 5,167,054</u>	<u>\$ 885,805</u>	<u>\$ 1,123,891</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 31,045	\$ -	\$ 100	\$ -
Unearned Revenues	1,381	-	-	-
Deferred Revenues	156,407	-	-	-
Total Liabilities	<u>188,833</u>	<u>-</u>	<u>100</u>	<u>-</u>
Fund Balances:				
Restricted				
Stabilization by State Statute	565,129	-	-	-
Streets - Powell Bill	196,700	-	-	-
Tourism	-	-	885,705	-
Assigned				
Beach and Strand	-	5,167,054	-	931,090
Streets	-	-	-	127,801
Public Buildings	-	-	-	65,000
Subsequent Year's Expenditures	669,249	-	-	-
Unassigned	1,759,162	-	-	-
Total Fund Balances	<u>3,190,240</u>	<u>5,167,054</u>	<u>885,705</u>	<u>1,123,891</u>
	<u>\$ 3,379,073</u>	<u>\$ 5,167,054</u>	<u>\$ 885,805</u>	<u>\$ 1,123,891</u>

**Total
Governmental
Funds**

\$ 8,615,932

156,407

266,749

91,482

533,683

891,570

\$ 10,555,823

\$ 31,145

1,381

156,407

188,933

565,129

196,700

885,705

6,098,144

127,801

65,000

669,249

1,759,162

10,366,890

TOWN OF SURF CITY, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2012

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

Total Governmental Fund Balance

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

Gross capital assets at historical costs	\$ 18,819,721
Accumulated depreciation	<u>(4,168,407)</u>

Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred

Accrued interest - taxes	<u>17,902</u>
--------------------------	---------------

Liabilities for earned but deferred revenues in fund statements.

Ad valorem taxes	<u>156,407</u>
------------------	----------------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

Net pension obligation	5,624
Capital leases	(559,670)
Installment purchases	(5,244,039)
Compensated absences	<u>(117,470)</u>

Net assets of governmental activities.

**Total
Governmental
Funds**

\$ 10,366,890

14,651,314

17,902

156,407

(5,915,555)

\$ 19,276,958

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	Major Funds			
	General Fund	Beach Renourishment Fund	Accommodations Tax Fund	Total Non-Major Funds
Revenues				
Ad Valorem Taxes	\$ 3,028,442	\$ 601,157	\$ -	\$ -
Other Taxes and Licenses	40,307	428,000	580,944	-
Unrestricted Intergovernmental	1,110,319	-	-	-
Restricted Intergovernmental	107,816	185,928	-	-
Permits and Fees	140,632	-	-	-
Sales and Services	551,516	-	-	-
Investment Earnings	4,755	-	-	-
Miscellaneous	200,324	-	-	-
Total Revenues	5,184,111	1,215,085	580,944	-
Expenditures				
Current				
Governing Body	103,387	-	-	-
Administration	223,256	-	-	-
Elections	1,967	-	-	-
Finance	299,899	-	-	-
Insurance	170,622	-	-	-
Legal	16,385	-	-	-
Public Buildings	152,257	-	-	-
Public Works	19,243	-	-	-
Police	1,306,125	-	-	-
Fire	671,631	-	-	-
Community Development	266,825	-	-	-
Street Department	300,840	-	-	-
Sanitation	729,085	-	-	-
Parks And Recreation	300,586	-	2,024	-
Hurricane	13,319	-	-	-
Beach and Strand	-	221,554	192,790	5,864
Street Department	-	-	-	15,624
Tourism	-	-	139,694	-
Debt Service				
Principal	583,877	229,000	-	-
Interest and Other Charges	138,144	87,736	-	-
Capital Outlay				
Police	18,642	-	-	-
Fire	-	-	-	465,888
Beach and Strand	-	-	23,630	-
Total Expenditures	5,316,090	538,290	358,138	487,376
Revenues Over (Under) Expenditures	(131,979)	676,795	222,806	(487,376)

**Total
Governmental
Funds**

\$ 3,629,599
1,049,251
1,110,319
293,744
140,632
551,516
4,755
200,324

6,980,140

103,387
223,256
1,967
299,899
170,622
16,385
152,257
19,243
1,306,125
671,631
266,825
300,840
729,085
302,610
13,319
420,208
15,624
139,694

812,877
225,880

18,642
465,888
23,630

6,699,894

280,246

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2012

	Major Funds			
	General Fund	Beach Renourishment Fund	Accommodations Tax Fund	Total Non-Major Funds
Other Financing Sources (Uses)				
Transfers from Other Funds	\$ 60,000	\$ -	\$ -	\$ 65,000
Transfers to Other Funds	(150,000)	-	(60,000)	(65,000)
Capital Lease Obligations Issued	-	-	-	465,888
Total Other Financing Sources (Uses)	(90,000)	-	(60,000)	465,888
Net Change in Fund Balance	(221,979)	676,795	162,806	(21,488)
Fund Balance - Beginning of Year	3,412,219	4,490,259	722,899	1,145,379
Fund Balance - End of Year	\$ 3,190,240	\$ 5,167,054	\$ 885,705	\$ 1,123,891

**Total
Governmental
Funds**

\$	125,000
	(275,000)
	<hr/> 465,888
	<hr/> 315,888
	596,134
	<hr/> 9,770,756
\$	<hr/> <hr/> 10,366,890

TOWN OF SURF CITY, NORTH CAROLINA
 Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
 Governmental Funds
 For the Year Ended June 30, 2012

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

Net changes in fund balances - total governmental funds

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	\$ 508,160
Depreciation expense	<u>(436,970)</u>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Change in deferred revenue for ad valorem tax revenues	13,286
Interest earned on ad valorem taxes	<u>5,354</u>

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issuance	(465,888)
Debt retirement	812,877
Decrease in accrued interest payable	<u>-</u>

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	(891)
Compensated absences	<u>5,889</u>

Total changes in net assets of governmental activities

\$ 596,134

71,190

18,640

346,989

4,998

\$ 1,037,951

TOWN OF SURF CITY, NORTH CAROLINA
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues				
Ad Valorem Taxes	\$ 3,561,223	\$ 3,561,223	\$ 3,028,442	\$ (532,781)
Privelege Licenses	35,000	35,000	40,307	5,307
Unrestricted Intergovernmental	1,040,000	1,096,000	1,110,319	14,319
Restricted Intergovernmental	71,000	207,346	107,816	(99,530)
Permits and Fees	99,000	112,700	140,632	27,932
Sales and Services	606,700	545,000	551,516	6,516
Investment Earnings	13,000	13,000	4,755	(8,245)
Miscellaneous	19,000	22,177	200,324	178,147
Total Revenues	5,444,923	5,592,446	5,184,111	(408,335)
Expenditures				
Governing Body	108,363	119,040	103,387	15,653
Administration	243,315	243,315	223,256	20,059
Elections	6,000	6,000	1,967	4,033
Finance	298,232	303,732	299,899	3,833
Insurance	209,000	209,000	170,622	38,378
Legal	20,000	20,000	16,385	3,615
Public Buildings	387,023	372,023	350,373	21,650
Public Works	16,098	21,098	19,243	1,855
Police	1,546,375	1,554,877	1,539,246	15,631
Fire	812,527	812,527	749,069	63,458
Community Development	266,177	274,877	266,825	8,052
Street Department	248,289	359,089	335,173	23,916
Sanitation	595,250	745,250	729,085	16,165
Parks And Recreation	538,357	538,357	498,241	40,116
Hurricane	25,000	13,319	13,319	-
Total Expenditures	5,320,006	5,592,504	5,316,090	276,414
Revenues Over (Under) Expenditures	124,917	(58)	(131,979)	(131,921)
Other Financing Sources (Uses)				
Transfers from Other Funds	63,000	60,000	60,000	-
Transfers to Other Funds	(769,157)	(751,157)	(150,000)	601,157
Capital Lease Obligations Issued	-	-	-	-
Total Other Financing Sources (Uses)	(706,157)	(691,157)	(90,000)	601,157
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(581,240)	(691,215)	(221,979)	469,236
Appropriated Fund Balance	581,240	691,215	-	(691,215)
Net Change in Fund Balance	\$ -	\$ -	(221,979)	\$ (221,979)
Fund Balance - Beginning of Year			3,412,219	
Fund Balance - End of Year			\$ 3,190,240	

TOWN OF SURF CITY, NORTH CAROLINA
Accommodations Tax Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Accommodations Tax Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Other Taxes and Licenses	\$ 768,000	\$ 868,000	\$ 580,944	\$ (287,056)
Total Revenues	<u>768,000</u>	<u>868,000</u>	<u>580,944</u>	<u>(287,056)</u>
Expenditures				
Parks And Recreation	-	-	2,024	(2,024)
Beach and Strand	240,500	264,000	216,420	47,580
Tourism	197,623	200,123	139,694	60,429
Total Expenditures	<u>438,123</u>	<u>464,123</u>	<u>358,138</u>	<u>105,985</u>
Revenues Over (Under) Expenditures	<u>329,877</u>	<u>403,877</u>	<u>222,806</u>	<u>(181,071)</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	-	-	-	-
Transfers to Other Funds	(378,000)	(452,000)	(60,000)	392,000
Total Other Financing Sources (Uses)	<u>(378,000)</u>	<u>(452,000)</u>	<u>(60,000)</u>	<u>392,000</u>
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(48,123)	(48,123)	162,806	210,929
Appropriated Fund Balance	<u>48,123</u>	<u>48,123</u>	<u>-</u>	<u>(48,123)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>162,806</u>	<u>\$ 162,806</u>
Fund Balance - Beginning of Year			<u>722,899</u>	
Fund Balance - End of Year			<u>\$ 885,705</u>	

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Fund Net Assets

Proprietary Fund

June 30, 2012

	Water and Wastewater Fund
	<u> </u>
ASSETS	
Current Assets	
Cash and Investments	\$ 389,838
Accounts Receivable (net)	<u>550,067</u>
Total Current Assets	<u>939,905</u>
Noncurrent Assets	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	5,245,933
Other Capital Assets, Net of Depreciation	<u>37,424,665</u>
Total Capital Assets	<u>42,670,598</u>
Total Noncurrent Assets	<u>42,670,598</u>
Total Assets	<u><u>\$ 43,610,503</u></u>

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Fund Net Assets (Continued)
Proprietary Fund
June 30, 2012

	<u>Water and Wastewater Fund</u>
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	\$ -
Customer Deposits	305,263
Unearned Revenue	23,434
Installment Purchase Obligations Payable	<u>1,416,672</u>
Total Current Liabilities	<u>1,745,369</u>
Noncurrent Liabilities	
Installment Purchase Obligations Payable	20,422,657
Compensated Absences Payable	<u>25,721</u>
Total Noncurrent Liabilities	<u>20,448,378</u>
Total Liabilities	<u><u>22,193,747</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	22,247,941
Unrestricted	<u>(831,185)</u>
Total Net Assets	<u><u>\$ 21,416,756</u></u>



TOWN OF SURF CITY, NORTH CAROLINA

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Fund

For the Year Ended June 30, 2012

	Water and Wastewater Fund
Operating Revenues	
Water Charges	\$ 1,222,753
Wastewater Charges	1,703,489
Taps	47,384
Impact Fees	517,977
	<hr/>
Total Operating Revenues	3,491,603
	<hr/>
Operating Expenses	
Administration	226,653
Insurance	69,009
Water Operations	437,677
Wastewater Collection and Treatment	779,816
Depreciation	866,453
	<hr/>
Total Operating Expenses	2,379,608
	<hr/>
Operating Income (Loss)	1,111,995
	<hr/>
Nonoperating Revenues (Expenses)	
Investment Earnings	8
Miscellaneous Income	288,060
Interest Expense	(758,270)
	<hr/>
Total Nonoperating Revenues (Expenses)	(470,202)
	<hr/>
Total Income (Loss) Before Transfers	641,793
	<hr/>
Transfers from Other Funds	150,000
	<hr/>
Change in Net Assets	791,793
	<hr/>
Net Assets - Beginning of Year	20,624,963
	<hr/>
Net Assets - End of Year	<u><u>\$ 21,416,756</u></u>

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Cash Flows

Proprietary Fund

For the Year Ended June 30, 2012

	Water and Wastewater Fund
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 3,387,951
Cash Paid for Goods and Services	(947,197)
Cash Paid to or on Behalf of Employees for Services	(569,769)
Customer Deposits Received	21,787
Customer Deposits Returned	(1,440)
Other Operating Revenues	288,060
Net Cash Provided(Used) by Operating Activities	<u>2,179,392</u>
Cash Flows from Noncapital Financing Activities	
Transfers from other funds	150,000
Net Cash Provided(Used) by Noncapital Financing Activities	<u>150,000</u>
Cash Flows from Capital Financing Activities	
Acquisition and Construction of Capital Assets	(3,439,754)
Interest Paid on Bond Maturities and Equipment Contracts	(758,270)
Principal Paid on Bond Maturities and Equipment Contracts	(1,446,013)
Installment Loan Proceeds	3,588,380
Net Cash Provided(Used) by Capital Financing Activities	<u>(2,055,657)</u>
Cash Flows from Investing Activities	
Interest on Investments	8
Net Increase(Decrease) in Cash and Cash Equivalents	273,743
Cash and Cash Equivalents - Beginning of Year	<u>116,095</u>
Cash and Cash Equivalents - End of Year	<u>\$ 389,838</u>

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Cash Flows (Continued)

Proprietary Fund

For the Year Ended June 30, 2012

	Water and Wastewater Fund
	<u> </u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	<u>\$ 1,111,995</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	866,453
Miscellaneous Income	288,060
Changes in Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(109,825)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	-
Increase (Decrease) in Customer Deposits	20,374
Increase (Decrease) in Unearned Revenue	6,172
Increase (Decrease) in Compensated Absences Payable	<u>(3,837)</u>
Total Adjustments	<u>1,067,397</u>
Net Cash Provided(Used) by Operating Activities	<u><u>\$ 2,179,392</u></u>

TOWN OF SURF CITY, NORTH CAROLINA

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	<u>Pension Trust Fund</u>
Assets	
Cash and Cash Equivalents	\$ 117,935
Total Assets	<u>\$ 117,935</u>
Net Assets	
Net Assets	
Assets Held in Trust for Pension Benefits	\$ 117,935
Total Net Assets	<u>\$ 117,935</u>

TOWN OF SURF CITY, NORTH CAROLINA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012

	Pension Trust Fund
	<u> </u>
Additions	
Employer Contributions	\$ 16,000
Investment Earnings	
Interest	<u> -</u>
Total Additions	16,000
Deductions	
Benefits	<u> -</u>
Change in Net Assets	16,000
Net Assets - Beginning of Year	<u>101,935</u>
Net Assets - End of Year	<u><u>\$ 117,935</u></u>

TOWN OF SURF CITY, NORTH CAROLINA

Notes to the Financial Statements

For the Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Surf City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Surf City is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town.

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities 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 the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

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. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

Beach Renourishment Fund. This fund is used to account for the renourishment of the Town's beach front.

Accommodations Tax Fund. This fund is used to account for tourism related projects

The Town reports the following non-major governmental funds:

Police Department Capital Project Fund. This fund is used to account for construction costs of police department.

Disaster Recovery Fund. This fund is used to account for related costs in relation to a natural disaster.

Special Fire Equipment Fund. This fund is used to account for the purchase of fire equipment.

Capital Reserve Fund. This fund is to accumulate resources to acquire fixed assets.

Parks Capital Project Fund. This fund is used to account for construction of recreational parks.

Beach Access Improvements Fund. This fund is used to account for Beach access improvement costs.

Public Works Center Fund. This fund is used to account for construction costs of a Public Works Center.

Community Center Fund. This fund is used to account for construction of a community center.

Sidewalk Capital Project Fund. This fund is used to account for construction of sidewalks.

Town Hall Capital Project Fund. This fund is used to account for costs of a new town hall.

Fire Department Equipment Capital Reserve Fund. This fund is to accumulate resources to acquire fire department equipment.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation (Continued)

The Town reports the following major enterprise fund:

Water and Wastewater Fund. This fund is used to account for the Town's water and wastewater operations.

The Town reports the following fund types:

Pension Trust Fund. The town maintains a Pension Trust Fund – the Special Separation Allowance Fund. Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other postemployment benefit plans. The Special Separation Allowance Fund, that accounts for the Law Enforcement Officers' Special Separation Allowance, is a single-employer, public employee retirement system.

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. Nonexchange 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund is charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a 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, Pender 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 Surf City. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Pender County from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

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. 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. All amendments must be approved by the governing board. During the year, there were no amendments to the original budget. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity

1. 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 and 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 securities of the NCCMT – Cash Portfolio are valued at fair value, which is the NCCMT's share price.

2. 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.

4. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

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, 2011. As allowed by State Law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity

6. 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, 2004, 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 are 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:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and Fixtures	10
Equipment	10
Computer Equipment	3
Software	3

7. Long-Term Obligations

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

8. Compensated Absences

The vacation policy of the Town provides 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's sick leave policy provides for an unlimited number of days 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.

9. Net Assets/Fund Balances

Net Assets

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

Fund Balance

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:

Nonspendable 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.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

9. Net Assets/Fund Balances (Continued)

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

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

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

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

Assigned fund balance – portion of fund balance that Town of Surf City intends to use for specific purposes.

Assigned for Sidewalks – portion of fund balance that has been budgeted by the Board for construction of sidewalks.

Assigned for Beach Renourishment – portion of fund balance that has been budgeted by the Board for the renourishment of beach sand.

Assigned for Capital Reserve – portion of fund balance that has been budgeted by the Board for the acquisition of fixed assets.

Assigned for Sewer – portion of fund balance that has been budgeted by the Board for the construction of sewer infrastructure.

Assigned for Disaster Recovery – portion of fund balance that has been budgeted by the Board for recovery in the event of a natural disaster.

Assigned for Community Center – portion of fund balance that has been budgeted by the Board for the construction of a town community center.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2012, the Town's deposits had a carrying amount of \$3,409,874 and a bank balance of \$3,461,327. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2012, the Town's petty cash funds totaled \$250.

2. Investments

At June 30, 2012, the Town of Surf City had \$6,605,151 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

Fund	06/30/2012
General Fund:	
Taxes receivable	\$ 17,000
Total	\$ 17,000

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,136,999	\$ -	\$ -	\$ 8,136,999
Capital assets being depreciated:				
Buildings	6,040,106	-	-	6,040,106
Equipment	1,387,093	35,273	-	1,422,366
Vehicles	1,480,916	472,887	-	1,953,803
Infrastructure	1,266,447	-	-	1,266,447
Total capital assets being depreciated	<u>10,174,562</u>	<u>508,160</u>	<u>-</u>	<u>10,682,722</u>
Less accumulated depreciation for:				
Buildings	1,523,778	120,802	-	1,644,580
Equipment	722,987	154,991	-	877,978
Vehicles	1,304,504	118,962	-	1,423,466
Infrastructure	180,168	42,215	-	222,383
Total accumulated depreciation	<u>3,731,437</u>	<u>436,970</u>	<u>-</u>	<u>4,168,407</u>
Total capital assets being depreciated, net	<u>6,443,125</u>			<u>6,514,315</u>
Governmental activity capital assets, net	<u>\$ 14,580,124</u>			<u>\$ 14,651,314</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

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

Fire	\$ 78,711
Parks and Recreation	3,889
Police	323,197
Public Buildings	4,681
Street Department	<u>26,492</u>
Total	<u>\$ 436,970</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Water and Wastewater Fund</i>				
Capital assets not being depreciated:				
Land	\$ 5,245,933	\$ -	\$ -	\$ 5,245,933
Capital assets being depreciated:				
Buildings	-	-	-	-
Equipment	121,579	6,720	-	128,299
Vehicles	110,098	-	-	110,098
Water System	<u>42,583,112</u>	<u>3,433,035</u>	-	<u>46,016,147</u>
Total capital assets being depreciated	<u>42,814,789</u>	-	-	<u>46,254,544</u>
Less accumulated depreciation for:				
Buildings	-	-	-	-
Equipment	85,794	5,430	-	91,224
Vehicles	76,941	9,362	-	86,303
Water System	<u>7,800,690</u>	<u>851,662</u>	-	<u>8,652,352</u>
Total accumulated depreciation	<u>7,963,425</u>	<u>866,453</u>	-	<u>8,829,879</u>
Total capital assets being depreciated, net	\$ <u>34,851,364</u>			\$ <u>37,424,666</u>
Water and Wastewater Fund capital assets, net	\$ <u>40,097,297</u>			\$ <u>42,670,598</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Surf City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 9.70% and 9.80%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Surf City are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$240,203, \$222,653, and \$114,085, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Active plan members	18
Total	<u>18</u>

A separate report was not issued for the plan.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

2. 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.

3. Contributions

The Town is required by Article 12D of 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 from 4.25 to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post employment benefit increases.

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

Annual required contribution	\$	16,828
Interest on net pension obligation		(326)
Adjustment to annual required contribution		389
Annual pension cost		16,891
Contributions made		16,000
Increase (decrease) in net pension obligation		891
Net pension obligation beginning of year		(6,515)
Net pension obligation end of year	\$	(5,624)

3 Year Trend Information				
For Year Ended		Annual Pension Cost	Percentage of	Net Pension
June 30		(APC)	APC Contributed	Obligation
2010	\$	9,888	161.81%	\$ (6,945)
2011		16,430	97.38	(6,515)
2012		16,891	97.73	(5,624)

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

b. Law Enforcement Officers Special Separation Allowance (Continued)

4. Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was 50.18 percent funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$101,216. The covered payroll (annual payroll of active employees covered by the plan) was \$851,110, and the ratio of UAAL to the covered payroll was 11.89 percent.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$55,780, which consisted of \$38,430 from the Town and \$17,350 from the law enforcement officers.

All Other Employees

Plan Description. All other employees have the option of contributing to the Supplemental Retirement Plan of North Carolina 401(k). This plan is a defined contribution pension plan and participation is optional.

Funding Policy. The Town pays \$20 per pay period for each participating employee. For the year ended June 30, 2012, total contributions to the plan equaled \$41,688, which consisted of \$20,600 from the Town and \$24,845 from the participating employees.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Surf City, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund 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 the Fund. 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 \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town contributes the entire amount to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

e. Other Employment Benefit

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

C. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ -	\$ 1,381
Taxes receivable (General Fund)	156,407	-
Total	\$ <u>156,407</u>	\$ <u>1,381</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

D. 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 the three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools the Town obtains general liability, auto liability, public officials' liability, law enforcement liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to 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, auto 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. The Town also is eligible to and has purchased commercial flood insurance for another \$1,500,000 of coverage per structure.

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 and tax collector are each individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

E. Claims, Judgments and Contingent Liabilities

At June 30, 2012, the Town did not have any litigation pending.

II. DETAIL NOTES ON ALL FUNDS (Continued)

F. Long-Term Obligations

1. Capital Leases

The Town has entered into agreements to lease certain equipment and vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The first agreement was executed on April 1, 2003 to lease a fire truck and requires 11 annual payments of \$75,659. The second agreement was executed on December 15, 2006 to lease a fire truck and requires 5 annual payments of \$44,300. The third agreement was executed on January 15, 2008 to lease equipment for the sewer system and requires 5 annual payments of \$49,683. The fourth agreement was executed on August 14, 2009 and requires 3 annual payments of \$45,846. The fifth agreement was executed on September 17, 2010 and requires 8 semiannual payments of \$17,166. The sixth agreement was executed on August 1, 2011 and requires 12 annual payments of \$47,337. In all agreements, title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2012:

Governmental Activities:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Vehicles	\$ 1,502,892	\$ 932,956	\$ 569,936
Equipment	121,460	49,442	72,018
Total	\$ 1,624,352	\$ 982,398	\$ 641,954

Business-type Activities:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Plant and Distribution	\$ 227,963	\$ 20,327	\$ 207,636
Total	\$ 227,963	\$ 20,327	\$ 207,636

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

	Year Ending June 30	
2013	\$	127,515
2014		64,503
2015		47,337
2016		47,337
2017		47,337
2018-2023		284,016
Total minimum lease payments		618,045
Less: amount representing interest		58,375
Present value of the minimum lease payments	\$	<u>559,670</u>

II. DETAIL NOTES ON ALL FUNDS (Continued)

F. Long-Term Obligations (Continued)

2. Installment Purchases

Serviced by the General Fund:

In October 2003, the Town entered into \$319,936 in certificates of participation to finance the purchase of land for a park. The financing contract requires principal payments beginning fiscal year 2004 with an interest rate of 4.40%.

In August 2005, the Town entered into \$1,358,700 in certificates of participation to finance the construction of a community center. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.46%.

In January 2006, the Town entered into \$2,900,000 in certificates of participation to finance the construction of parking facilities. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%.

In January 2006, the Town entered into \$535,000 in certificates of participation to finance the construction of parking facilities. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%.

In January 2007, the Town entered into \$1,800,000 in certificates of participation to finance the construction of a police station. The financing contract requires principal payments beginning fiscal year 2008 with an interest rate of 3.77%.

In March 2007, the Town entered into \$500,000 in certificates of participation to finance the purchase of land for a police station. The financing contract requires principal payments beginning fiscal year 2008 with an interest rate of 5.75%.

In December 2007, the Town entered into \$2,100,000 in certificates of participation to finance the purchase of land for the Town Hall. The financing contract requires principal payments beginning fiscal year 2008 with an interest rate of 3.69%.

Serviced by the Water and Sewer Fund:

In November 2004, the Town entered into \$440,000 in certificates of participation to finance the purchase of land for the Water and Sewer System. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.27%.

In August 2005, the Town entered into \$1,448,840 in certificates of participation to finance the construction of a water tower. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.59%.

In June 2012, the Town entered into \$3,588,380 in certificates of participation to finance the construction of the first phase of the irrigation system at Juniper Swamp. The financing contract requires principal payments beginning fiscal year 2014 with an interest rate of 2.455%.

II. DETAIL NOTES ON ALL FUNDS (Continued)

F. Long-Term Obligations (Continued)

2. Installment Purchases (Continued)

In August 2005, the Town entered into \$611,000 in certificates of participation to finance the construction of water wells. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.14%.

In August 2005, the Town entered into \$580,210 in certificates of participation to finance the construction of water lines. The financing contract requires principal payments beginning fiscal year 2006 with an interest rate of 3.14%.

In June 2006, the Town entered into \$1,000,000 in certificates of participation to finance the construction of sewer lines. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 3.93%.

In June 2006, the Town entered into \$4,000,000 in certificates of participation to finance the purchase of land. The financing contract requires principal payments beginning fiscal year 2007 with an interest rate of 4.12%.

In May 2007, the Town entered into \$6,000,000 in certificates of participation to finance the construction of a water treatment plant. The financing contract requires principal payments beginning fiscal year 2008 with an interest rate of 3.91%.

In February 2008, the Town entered into \$10,000,000 in certificates of participation to finance the construction of a waste water treatment facility. The financing contract requires principal payments beginning fiscal year 2009 with an interest rate of 3.94%.

In May 2010, the Town entered into \$1,905,236 in certificates of participation to finance the construction of a pump station. The financing contract requires principal payments beginning fiscal year 2011 with an interest rate of 3.59%.

II. DETAIL NOTES ON ALL FUNDS (Continued)

F. Long-Term Obligations (Continued)

2. Installment Purchases (Continued)

Annual debt service payments of the installment purchases as of June 30, 2012, including \$5,384,725 of interest, are as follows:

Year Ending June 30	Governmental Activities		Business Type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 662,364	\$ 191,086	\$ 1,416,672	\$ 701,162
2014	624,870	167,696	1,495,082	822,112
2015	624,870	144,305	1,605,282	676,572
2016	556,935	120,914	1,630,385	616,129
2017	489,000	101,049	3,960,383	505,279
2018-2022	2,216,000	227,150	6,492,898	1,488,370
2023-2027	70,000	1,292	3,443,927	598,943
2028-2032	-	-	1,565,625	122,646
2033-2037	-	-	229,075	5,624
Total	\$ 5,244,039	\$ 953,492	\$ 21,839,329	\$ 5,536,837

TOWN OF SURF CITY, NORTH CAROLINA
Notes to the Financial Statements (Continued)
For the Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued)

F. Long-Term Obligations (Continued)

3. Changes in Long-Term Liabilities

	Balance			Balance	Current
	07/01/11	Increases	Decreases	06/30/12	Portion
					of Balance
Governmental activities:					
Installment purchases	\$ 5,907,811	\$ -	\$ (663,772)	\$ 5,244,039	\$ 662,364
Capitalized leases	241,887	465,888	(148,105)	559,670	109,699
Compensated absences	123,359	-	(5,889)	117,470	-
Net pension obligation	(6,515)	891	-	(5,624)	-
Governmental activity					
long-term liabilities	<u>\$ 6,266,542</u>	<u>\$ 466,779</u>	<u>\$ (817,766)</u>	<u>\$ 5,915,555</u>	<u>\$ 772,063</u>
Business-type activities:					
<u>Water and Wastewater Fund</u>					
Installment purchases	\$ 19,648,463	\$ 3,588,380	\$ (1,397,514)	\$ 21,839,329	\$ 1,416,673
Capital leases	48,499	-	(48,499)	-	-
Compensated absences	29,558	-	(3,837)	25,721	-
Business-type activity					
long-term liabilities	<u>\$ 19,726,520</u>	<u>\$ 3,588,380</u>	<u>\$ (1,449,850)</u>	<u>\$ 21,865,050</u>	<u>\$ 1,416,673</u>

Compensated absences typically have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave as it is earned.

II. DETAIL NOTES ON ALL FUNDS (Continued)

G. Interfund Balances and Activity

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

From the General Fund to the Water and Wastewater Fund	\$ 150,000
From the Capital Reserve Fund to the Town Hall Capital Project Fund	65,000
From the Accommodations Tax Fund to the General Fund	60,000
From the Water Capital Reserve Fund to the Water and Wastewater Fund	242,500
From the Wastewater Capital Reserve Fund to the Water and Wastewater Fund	240,000
Total	<u>\$ 757,500</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

H. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2012, the Town of Surf City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$2,449 for the 9 employed fireman who perform firefighting duties for the Town's fire department. The employees elected to be members of the Fireman and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

I. Fund Balance

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	\$ 3,190,240
Less:	
Stabilization by State Statute	565,129
Streets – Powell Bill	196,700
Controlled Substance	-
Drug Seizures and Forfeitures	-
Appropriated Fund Balance in 2013 budget	669,249
Working Capital / Fund Balance Policy	-
Remaining Fund Balance	1,759,162

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	General Fund	Non-Major Funds
	-	-

III. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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



Required Supplementary

Financial Data

TOWN OF SURF CITY, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2005	\$ 11,935	\$ 56,842	\$ 44,907	21.00%	\$ 482,495	9.31%
12/31/2006	23,935	68,660	44,725	34.86%	592,242	7.55%
12/31/2008	69,935	95,392	25,457	73.31%	639,466	3.98%
12/31/2009	85,935	141,955	56,020	60.54%	699,700	8.01%
12/31/2010	85,935	150,750	64,815	57.00%	687,024	9.43%
12/31/2011	101,935	203,151	101,216	50.18%	851,110	11.89%

TOWN OF SURF CITY, NORTH CAROLINA
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2008	\$ 10,466	152.88%
2009	10,407	153.74%
2010	9,888	161.81%
2011	16,430	97.38%
2012	16,891	94.73%

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	5.00%
Projected Salary Increases	4.25% - 7.85%
Includes Inflation at	3.00%
Cost of Living Adjustments	N/A



Major Governmental Funds

General Fund

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 3,021,276	
Penalties and Interest		7,166	
Total Ad Valorem Taxes	\$ 3,561,223	3,028,442	\$ (532,781)
Other Taxes and Licenses			
Privilege Licenses		40,307	
Total Other Taxes and Licenses	35,000	40,307	5,307
Unrestricted Intergovernmental			
Local Option Sales Tax		831,169	
Utility Franchise Tax		136,377	
Telecommunications Tax		25,238	
Video Franchise Tax		71,617	
Beer and Wine Tax		8,063	
ABC Profit Distribution		37,855	
Total Unrestricted Intergovernmental	1,096,000	1,110,319	14,319
Restricted Intergovernmental			
Powell Bill Allocation		70,593	
Controlled Substance Tax		145	
On-Behalf of Payments - Fire Department		2,449	
Grants - Disaster		33,348	
Solid Waste Disposal Tax		1,281	
Total Restricted Intergovernmental	207,346	107,816	(99,530)
Permits and Fees			
Building Permits		137,734	
Court Costs and Fees		918	
Beach Access		1,980	
CAMA Permits and Fees		-	
Total Permits and Fees	112,700	140,632	27,932
Sales and Services			
Solid Waste		551,516	
Total Sales and Services	545,000	551,516	6,516
Investment Earnings			
General		4,755	
Total Investment Earnings	13,000	4,755	(8,245)
Miscellaneous			
Other		200,324	
Total Miscellaneous	22,177	200,324	178,147
Total Revenues	5,592,446	5,184,111	(408,335)

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Expenditures			
Governing Body			
Salaries and Employee Benefits		\$ 22,648	
Other Expenditures		80,739	
Total Governing Body	\$ 119,040	103,387	\$ 15,653
Administration			
Salaries and Employee Benefits		195,938	
Other Expenditures		27,318	
Total Administration	243,315	223,256	20,059
Elections			
Other Expenditures		1,967	
Total Elections	6,000	1,967	4,033
Finance			
Salaries and Employee Benefits		258,252	
Other Expenditures		41,647	
Total Finance	303,732	299,899	3,833
Insurance			
Other Expenditures		170,622	
Total Insurance	209,000	170,622	38,378
Legal			
Other Expenditures		16,385	
Total Legal	20,000	16,385	3,615
Public Buildings			
Salaries and Employee Benefits		139,999	
Other Expenditures		12,258	
Debt Service:			
Principal Retirement		140,000	
Interest and Other Charges		58,116	
Total Public Buildings	372,023	350,373	21,650
Public Works			
Other Expenditures		19,243	
Total Public Works	21,098	19,243	1,855
Police			
Salaries and Employee Benefits		1,131,377	
Other Expenditures		174,748	
Capital Outlay		18,642	
Debt Service:			
Principal Retirement		166,846	
Interest and Other Charges		47,633	
Total Police	1,554,877	1,539,246	15,631

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Fire			
Salaries and Employee Benefits		\$ 561,240	
Other Expenditures		110,391	
Debt Service:			
Principal Retirement		73,064	
Interest and Other Charges		4,374	
Total Fire	\$ 812,527	749,069	\$ 63,458
Community Development			
Salaries and Employee Benefits		223,942	
Other Expenditures		42,883	
Total Community Development	274,877	266,825	8,052
Street Department			
Salaries and Employee Benefits		103,114	
Other Expenditures		197,726	
Debt Service:			
Principal Retirement		29,195	
Interest and Other Charges		5,138	
Total Street Department	359,089	335,173	23,916
Sanitation			
Other Expenditures		729,085	
Total Sanitation	745,250	729,085	16,165
Parks and Recreation			
Salaries and Employee Benefits		202,817	
Other Expenditures		97,769	
Debt Service:			
Principal Retirement		174,772	
Interest and Other Charges		22,883	
Total Parks and Recreation	538,357	498,241	40,116
Hurricane			
Other Expenditures		13,319	
Total Hurricane	13,319	13,319	-
Total Expenditures	5,592,504	5,316,090	276,414

TOWN OF SURF CITY, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (58)	\$ (131,979)	\$ (131,921)
Other Financing Sources (Uses)			
Transfers In:			
Accomodations Tax Fund	60,000	60,000	-
Transfers Out:			
Water and Wastewater Fund	(150,000)	(150,000)	-
Beach Renourishment Fund	(601,157)	-	601,157
Total Other Financing Sources (Uses)	<u>(691,157)</u>	<u>(90,000)</u>	<u>601,157</u>
Fund Balance Appropriated	<u>691,215</u>	<u>-</u>	<u>(691,215)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>(221,979)</u>	<u>\$ (221,979)</u>
Fund Balance - Beginning of Year		<u>3,412,219</u>	
Fund Balance - End of Year		<u>\$ 3,190,240</u>	



Major Governmental Funds

Capital Project Funds

TOWN OF SURF CITY, NORTH CAROLINA
 Beach Renourishment Fund
 Statement of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 601,157	
Total Ad Valorem Taxes	\$ 4,285,402	601,157	\$ (3,684,245)
Other Taxes and Licenses			
Accommodations Tax		428,000	
Total Other Taxes and Licenses	2,918,544	428,000	(2,490,544)
Restricted Intergovernmental			
Grants - County/Local		185,928	
Total Restricted Intergovernmental	1,662,375	185,928	(1,476,447)
Miscellaneous			
Other		-	
Total Miscellaneous	79,857	-	(79,857)
Total Revenues	8,946,178	1,215,085	(7,731,093)
Expenditures			
Beach and Strand			
Other Expenditures		221,554	
Capital Outlay		-	
Debt Service:			
Principal Retirement		229,000	
Interest and Other Charges		87,736	
Total Beach and Strand	9,469,778	538,290	8,931,488
Total Expenditures	9,469,778	538,290	8,931,488
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (523,600)	\$ 676,795	\$ 1,200,395
Other Financing Sources (Uses)			
Transfers In:			
General Fund	500,000	-	(500,000)
Installment Purchase	23,600	-	(23,600)
Total Other Financing Sources (Uses)	523,600	-	(523,600)
Fund Balance Appropriated	-	-	-
Net Change in Fund Balance	\$ -	676,795	\$ 676,795
Fund Balance - Beginning of Year		4,490,259	
Fund Balance - End of Year		\$ 5,167,054	

Major Governmental Funds

Special Revenue Funds

TOWN OF SURF CITY, NORTH CAROLINA
Accommodations Tax Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Other Taxes and Licenses			
Accommodations Tax		\$ 580,944	
Total Other Taxes and Licenses	\$ 868,000	580,944	\$ (287,056)
Total Revenues	868,000	580,944	(287,056)
Expenditures			
Parks and Recreation			
Salaries and Employee Benefits		1,910	
Other Expenditures		114	
Total Parks and Recreation	2,500	2,024	476
Beach and Strand			
Salaries and Employee Benefits		41,613	
Capital Outlay		23,630	
Other Expenditures		151,177	
Total Beach and Strand	264,000	216,420	47,580
Tourism			
Salaries and Employee Benefits		110,034	
Other Expenditures		29,660	
Total Tourism	197,623	139,694	57,929
Total Expenditures	464,123	358,138	105,985
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 403,877	\$ 222,806	\$ (181,071)
Other Financing Sources (Uses)			
Transfers Out:			
General Fund	(24,000)	(60,000)	(36,000)
Beach Renourishment Fund	(428,000)	-	428,000
Total Other Financing Sources (Uses)	(452,000)	(60,000)	392,000
Fund Balance Appropriated	48,123	-	(48,123)
Net Change in Fund Balance	\$ -	162,806	\$ 162,806
Fund Balance - Beginning of Year		722,899	
Fund Balance - End of Year		\$ 885,705	

Nonmajor Governmental Funds

Capital Project Funds

TOWN OF SURF CITY, NORTH CAROLINA

Combining Balance Sheet

Nonmajor Capital Project Funds

June 30, 2012

	Capital Reserve Fund	Sidewalk Capital Project Fund	Community Center Fund
ASSETS			
Cash and Cash Equivalents	\$ 140,000	\$ 127,801	\$ 46,090
Total Assets	\$ 140,000	\$ 127,801	\$ 46,090
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Balances:			
Assigned			
Beach and Strand	140,000	-	46,090
Street Department	-	127,801	-
Public Buildings	-	-	-
Total Fund Balances	140,000	127,801	46,090
Total Liabilities and Fund Balances	\$ 140,000	\$ 127,801	\$ 46,090

Disaster Recovery Fund	Fire Department Equipment Capital Reserve Fund	Town Hall Capital Project Fund	Total
\$ 745,000	\$ -	\$ 65,000	\$ 1,123,891
\$ 745,000	\$ -	\$ 65,000	\$ 1,123,891
\$ -	\$ -	\$ -	\$ -
-	-	-	-
745,000	-	-	931,090
-	-	-	127,801
-	-	65,000	65,000
745,000	-	65,000	1,123,891
\$ 745,000	\$ -	\$ 65,000	\$ 1,123,891

TOWN OF SURF CITY, NORTH CAROLINA
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Capital Project Funds
 For the Fiscal Year Ended June 30, 2012

	Capital Reserve Fund	Sidewalk Capital Project Fund	Community Center Fund
Revenues			
Restricted Intergovernmental	\$ -	\$ -	\$ -
Expenditures			
Fire	-	-	-
Beach and Strand	-	-	5,864
Street Department	-	15,624	-
Total Expenditures	-	15,624	5,864
Revenues Over (Under) Expenditures	-	(15,624)	(5,864)
Other Financing Sources (Uses)			
Transfers from Other Funds	-	-	-
Transfers to Other Funds	(65,000)	-	-
Capital Lease Obligations Issued	-	-	-
Total Other Financing Sources (Uses)	(65,000)	-	-
Net Change in Fund Balance	(65,000)	(15,624)	(5,864)
Fund Balance - Beginning of Year	205,000	143,425	51,954
Fund Balance - End of Year	\$ 140,000	\$ 127,801	\$ 46,090

Disaster Recovery Fund	Fire Department Equipment Capital Reserve Fund	Town Hall Capital Project Fund	Total
\$ -	\$ -	\$ -	\$ -
-	465,888	-	465,888
-	-	-	5,864
-	-	-	15,624
-	465,888	-	487,376
-	(465,888)	-	(487,376)
-	-	65,000	65,000
-	-	-	(65,000)
-	465,888	-	465,888
-	465,888	65,000	465,888
-	-	65,000	(21,488)
745,000	-	-	1,145,379
\$ 745,000	\$ -	\$ 65,000	\$ 1,123,891

TOWN OF SURF CITY, NORTH CAROLINA
 Capital Reserve Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ -	\$ -
Expenditures			
Beach and Strand			
Capital Outlay		-	
Total Beach and Strand	-	-	-
Total Expenditures	-	-	-
Revenues Over (Under) Expenditures			
	-	-	-
Other Financing Sources (Uses)			
Transfers in:			
General Fund	-	-	-
Transfers out:			
Town Hall Capital Project Fund	(65,000)	(65,000)	-
Total Other Financing Sources (Uses)	(65,000)	(65,000)	-
Net Change in Fund Balance	<u>\$ (65,000)</u>	<u>(65,000)</u>	<u>\$ -</u>
Fund Balance - Beginning		<u>205,000</u>	
Fund Balance - Ending		<u>\$ 140,000</u>	

TOWN OF SURF CITY, NORTH CAROLINA
Sidewalk Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ -	\$ -
Expenditures			
Street Department			
Other Expenditures		15,624	
Total Street Department	373,500	15,624	357,876
Total Expenditures	373,500	15,624	357,876
Revenues Over (Under) Expenditures	(373,500)	(15,624)	357,876
Other Financing Sources (Uses)			
Transfers in:			
General Fund	373,500	-	(373,500)
Transfers out:			
General Fund	-	-	-
Total Other Financing Sources (Uses)	373,500	-	(373,500)
Net Change in Fund Balance	\$ -	(15,624)	\$ (15,624)
Fund Balance - Beginning		143,425	
Fund Balance - Ending		\$ 127,801	

TOWN OF SURF CITY, NORTH CAROLINA
 Community Center Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Restricted Intergovernmental			
State Grants		\$ -	
Total Restricted Intergovernmental	\$ 462,950	-	\$ (462,950)
Miscellaneous			
Other		-	
Total Miscellaneous	31,500	-	(31,500)
Total Revenues	494,450	-	(494,450)
Expenditures			
Beach and Strand			
Other Expenditures		5,864	
Total Beach and Strand	2,798,150	5,864	2,792,286
Total Expenditures	2,798,150	5,864	2,792,286
Revenues Over (Under) Expenditures	(2,303,700)	(5,864)	2,297,836
Other Financing Sources (Uses)			
Transfers in:			
General Fund	945,000	-	(945,000)
Transfers out:			
General Fund	-	-	-
Installment Purchase Obligations	1,358,700	-	(1,358,700)
Total Other Financing Sources (Uses)	2,303,700	-	(2,303,700)
Net Change in Fund Balance	\$ -	(5,864)	\$ (5,864)
Fund Balance - Beginning		51,954	
Fund Balance - Ending		\$ 46,090	

TOWN OF SURF CITY, NORTH CAROLINA
 Disaster Recovery Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ -	\$ -
Expenditures			
Beach and Strand			
Other Expenditures		-	
Total Beach and Strand	758,550	-	758,550
Total Expenditures	-	-	758,550
Revenues Over (Under) Expenditures			
	(758,550)	-	758,550
Other Financing Sources (Uses)			
Transfers in:			
General Fund	758,550	-	(758,550)
Transfers out:			
General Fund	-	-	-
Total Other Financing Sources (Uses)	758,550	-	(758,550)
Net Change in Fund Balance	\$ -	-	\$ -
Fund Balance - Beginning		<u>745,000</u>	
Fund Balance - Ending		<u>\$ 745,000</u>	

TOWN OF SURF CITY, NORTH CAROLINA
 Fire Department Equipment Capital Reserve Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Donations	\$ 2,000	\$ -	\$ 2,000
Expenditures			
Fire			
Capital Outlay		465,888	
Total Fire	1,500	465,888	(464,388)
Total Expenditures	-	465,888	(462,305)
Revenues Over (Under) Expenditures			
	500	(465,888)	(460,305)
Other Financing Sources (Uses)			
Transfers in:			
General Fund	-	-	-
Transfers out:			
General Fund	(500)	-	(500)
Capital Lease Obligations Issued	-	465,888	
Total Other Financing Sources (Uses)	(500)	465,888	(500)
Net Change in Fund Balance	\$ -	-	\$ (460,805)
Fund Balance - Beginning		-	
Fund Balance - Ending		\$ -	

TOWN OF SURF CITY, NORTH CAROLINA
Town Hall Capital Project Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Investment Earnings	\$ -	\$ -	\$ -
Expenditures			
Public Buildings			
Other Expenditures		-	
Total Public Buildings	<u>2,382,436</u>	<u>-</u>	<u>2,382,436</u>
Total Expenditures	<u>2,382,436</u>	<u>-</u>	<u>2,382,436</u>
Revenues Over (Under) Expenditures	<u>(2,382,436)</u>	<u>-</u>	<u>2,382,436</u>
Other Financing Sources (Uses)			
Transfers in:			
Capital Reserve Fund	190,000	65,000	(125,000)
General Fund	92,436	-	(92,436)
Transfers out:			
General Fund	-	-	-
Installment Loan Obligations Issued	<u>2,100,000</u>	<u>-</u>	<u>2,100,000</u>
Total Other Financing Sources (Uses)	<u>2,382,436</u>	<u>65,000</u>	<u>(217,436)</u>
Net Change in Fund Balance	<u><u>\$ -</u></u>	<u>65,000</u>	<u><u>\$ 2,165,000</u></u>
Fund Balance - Beginning		<u>-</u>	
Fund Balance - Ending		<u><u>\$ 65,000</u></u>	



Enterprise Funds

TOWN OF SURF CITY, NORTH CAROLINA
 Water and Wastewater Fund
 Schedule of Revenues and Expenditures
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Operating Revenues			
Water Charges	\$	\$ 1,222,753	\$
Wastewater Charges		1,703,489	
Tap Fees		47,384	
Total Operating Revenues	2,871,856	2,973,626	101,770
Investment Earnings			
Investment Earnings		4	
Total Investment Earnings	600	4	(596)
Nonoperating Revenues			
Miscellaneous Income		288,058	
Total Nonoperating Revenues	211,693	288,058	76,365
Total Revenues	3,084,149	3,261,688	177,539
Expenditures			
Administration			
Salaries and Employee Benefits		185,054	
Other Expenditures		41,598	
Capital Outlay		6,720	
Total Administration	248,287	233,372	14,915
Insurance			
Other Expenditures		69,009	
Total Insurance	77,000	69,009	7,991
Water Operations			
Salaries and Employee Benefits		160,804	
Other Expenditures		280,710	
Debt Service			
Principal Retirement		538,995	
Interest Expense		206,362	
Total Water Operations	1,174,959	1,186,871	(11,912)

TOWN OF SURF CITY, NORTH CAROLINA
 Water and Wastewater Fund
 Schedule of Revenues and Expenditures (Continued)
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Expenditures (Continued)			
Wastewater Collection and Treatment			
Salaries and Employee Benefits	\$	\$ 223,936	\$
Other Expenditures		555,880	
Capital Outlay		-	
Debt Service			
Principal Retirement		907,018	
Interest Expense		551,908	
Total Wastewater Collection and Treatment	2,319,304	2,238,742	80,562
Contingency	50,000	-	50,000
Total Expenditures	3,869,550	3,727,994	141,556
Excess (Deficiency) of Revenues Over (Under) Expenditures	(785,401)	(466,306)	319,095
Other Financing Sources (Uses)			
Appropriated Fund Balance	8,000	-	(8,000)
Transfers In:			
General fund	514,901	150,000	(364,901)
Water Capital Reserve Fund	122,500	242,500	120,000
Wastewater Capital Project Fund	140,000	240,000	100,000
Total Other Financing Sources (Uses)	785,401	632,500	(152,901)
Net Change in Fund Balance	\$ -	\$ 166,194	\$ 166,194

TOWN OF SURF CITY, NORTH CAROLINA
 Water and Wastewater Fund
 Schedule of Revenues and Expenditures (Continued)
 Budget and Actual (Non-GAAP)
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:			
Net Change in Fund Balance		\$ 166,194	
Reconciling Items:			
Depreciation Expense		(866,453)	
Capital Outlay		3,439,757	
Principal Retirement		1,446,012	
Decrease in Accrued Vacation		3,837	
Transfers Out:			
General Fund		-	
Water Capital Reserve Fund		(242,500)	
Wastewater Capital Reserve Fund		(240,000)	
Installment Loan Proceeds			
Wastewater Capital Project Fund		3,588,380	
Wastewater Construction From:			
Wastewater Capital Project Fund		(3,433,035)	
Impact Fees From:			
Water Capital Reserve Fund		258,405	
Wastewater Capital Reserve Fund		259,572	
Interest Income From:			
Water Capital Reserve Fund		3	
Wastewater Capital Reserve Fund		1	
Total Reconciling Items		<u>4,213,979</u>	
Change in Net Assets		<u>\$ 4,380,173</u>	

TOWN OF SURF CITY, NORTH CAROLINA

Water Capital Reserve Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

From Inception and for the Fiscal Year Ended June 30, 2012

	Actual			Totals to Date	Variance Positive (Negative)
	Project Authorization	Prior Year	Current Year		
Revenues					
Operating Revenues					
Impact Fees	\$ 2,774,500	\$ 2,461,353	\$ 258,405	\$ 2,719,758	\$ (54,742)
Assessments	1,850	1,850	-	1,850	-
Total Operating Revenues	<u>2,776,350</u>	<u>2,463,203</u>	<u>258,405</u>	<u>2,721,608</u>	<u>(54,742)</u>
Investment Earnings					
Interest	44,000	45,251	3	45,254	1,254
Total Revenues	<u>2,820,350</u>	<u>2,508,454</u>	<u>258,408</u>	<u>2,766,862</u>	<u>(53,488)</u>
Expenditures					
Water					
Contingency	40,562	-	-	-	40,562
Total Expenditures	<u>40,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,562</u>
Revenues Over (Under)					
Expenditures	<u>2,779,788</u>	<u>2,508,454</u>	<u>258,408</u>	<u>2,766,862</u>	<u>(12,926)</u>
Other Financing Sources (Uses)					
Appropriated Fund Balance	100,000	-	-	-	(100,000)
Transfers in:					
Water and Wasetwater Fund	144,260	-	-	-	(144,260)
Wastewater Capital Reserve Fund	115,000	-	-	-	(115,000)
Transfers out:					
Water and Wastewater Fund	(2,705,048)	(2,764,717)	(242,500)	(3,007,217)	(302,169)
Water Supply Development					
Capital Project Fund	(269,000)	283,248	-	283,248	552,248
Water Tank Capital Project Fund	(165,000)	-	-	-	165,000
Total Other Financing Sources (Uses)	<u>(2,779,788)</u>	<u>(2,481,469)</u>	<u>(242,500)</u>	<u>(2,723,969)</u>	<u>55,819</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 26,985</u>	<u>\$ 15,908</u>	<u>\$ 42,893</u>	<u>\$ 42,893</u>

TOWN OF SURF CITY, NORTH CAROLINA

Wastewater Capital Reserve Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

From Inception and for the Fiscal Year Ended June 30, 2012

	Actual			Totals to Date	Variance Positive (Negative)
	Project Authorization	Prior Year	Current Year		
Revenues					
Operating Revenues					
Impact Fees	\$ 3,446,485	\$ 3,393,573	\$ 259,572	\$ 3,653,145	\$ 206,660
Assessments	409,600	16,833	-	16,833	(392,767)
Total Operating Revenues	<u>3,856,085</u>	<u>3,410,406</u>	<u>259,572</u>	<u>3,669,978</u>	<u>(186,107)</u>
Investment Earnings					
Interest	86,000	61,747	1	61,748	(24,252)
Total Revenues	<u>3,942,085</u>	<u>3,472,153</u>	<u>259,573</u>	<u>3,731,726</u>	<u>(210,359)</u>
Expenditures					
Wastewater					
Contingency	7,006	-	-	-	7,006
Total Expenditures	<u>7,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,006</u>
Revenues Over (Under) Expenditures	<u>3,935,079</u>	<u>3,472,153</u>	<u>259,573</u>	<u>3,731,726</u>	<u>(203,353)</u>
Other Financing Sources (Uses)					
Transfers in:					
Wastewater Capital Project Fund	379,000	182,000	-	182,000	(197,000)
Transfers out:					
Water and Wastewater Fund	(1,865,379)	(3,640,679)	(240,000)	(3,880,679)	(2,015,300)
Wastewater Capital Project Fund	(2,448,700)	-	-	-	2,448,700
Total Other Financing Sources (Uses)	<u>(3,935,079)</u>	<u>(3,458,679)</u>	<u>(240,000)</u>	<u>(3,698,679)</u>	<u>236,400</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 13,474</u>	<u>\$ 19,573</u>	<u>\$ 33,047</u>	<u>\$ 33,047</u>

TOWN OF SURF CITY, NORTH CAROLINA
Wastewater Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2012

			Actual		Totals to Date	Variance Positive (Negative)
	Project Authorization	Prior Year	Current Year			
Revenues						
Investment Earnings						
Interest	\$ 35,000	\$ 12,122	\$ -	\$ 12,122	\$ (22,878)	
Nonoperating Revenues						
Capital Contributions-Federal Grants	2,000,000	2,000,000	-	2,000,000	-	
Rent	20,000	20,187	-	20,187	187	
Other	299,627	375,416	-	375,416	75,789	
Total Nonoperating Revenues	2,319,627	2,395,603	-	2,395,603	75,976	
Total Revenues	2,354,627	2,407,725	-	2,407,725	53,098	
Expenditures						
Wastewater						
Wastewater Construction	28,143,301	21,602,560	3,433,035	25,035,595	3,107,706	
Total Expenditures	28,143,301	21,602,560	3,433,035	25,035,595	3,107,706	
Revenues Over (Under)						
Expenditures	(25,788,674)	(19,194,835)	(3,433,035)	(22,627,870)	3,160,804	
Other Financing Sources (Uses)						
Appropriated Fund Balance	414,500	-	-	-	(414,500)	
Transfers in:						
General Fund	120,000	120,000	-	120,000	-	
Sea Wall Capital Project Fund	14,000	-	-	-	(14,000)	
Water Supply Development						
Capital Project Fund	-	2,369,686	-	2,369,686	2,369,686	
Wastewater Capital Reserve Fund	2,521,770	-	-	-	(2,521,770)	
Water and Wastewater Fund	300,000	-	-	-	(300,000)	
Transfers out:						
Wastewater Capital Reserve Fund	-	(182,000)	-	(182,000)	(182,000)	
Installment Purchase Obligations	22,418,404	16,905,236	3,588,380	20,493,616	(1,924,788)	
Total Other Financing Sources (Uses)	25,788,674	19,212,922	3,588,380	22,801,302	(2,987,372)	
Net Change in Fund Balance	\$ -	\$ 18,087	\$ 155,345	\$ 173,432	\$ 173,432	



Other Schedules

TOWN OF SURF CITY, NORTH CAROLINA
 General Fund
 Schedule of Ad Valorem Taxes Receivable
 June 30, 2012

Fiscal Year	Uncollected Balance 7-1-11	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-12
2011-12	\$ -	\$ 3,637,595	\$ 3,541,870	\$ 95,725
2010-11	124,976	-	68,180	56,796
2009-10	16,710	-	9,773	6,937
2008-09	7,652	-	3,189	4,463
2007-08	3,746	-	(47)	3,793
2006-07	1,513	-	1	1,512
2005-06	1,542	-	-	1,542
2004-05	1,192	-	-	1,192
2003-04	714	-	-	714
2002-03	778	-	45	733
2001-02	297	-	297	-
	\$ 159,120	\$ 3,637,595	\$ 3,623,308	173,407

Less: Allowance for Uncollectible Accounts:

General Fund 17,000

Ad Valorem Taxes Receivable - Net 156,407

Reconciliation with Revenues

Ad Valorem Taxes - General Fund 3,028,442

Ad Valorem Taxes - Beach Renourishment Fund 601,157

Reconciling Items:

Interest and Penalties Collected (7,166)

Taxes Released 578

Taxes Written Off 297

Total Collections and Credits \$ 3,623,308

TOWN OF SURF CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2012

	Town-Wide		Total Levy		
			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles	
	Property Valuation	Rate Per \$100	Amount of Levy		
Original Levy:					
Property Taxed at					
Current Year's Rate	\$ 1,283,218,635	0.2826	\$ 3,626,821	\$ 3,562,257	\$ 64,564
Penalties	-		706	706	-
	<u>1,283,218,635</u>		<u>3,627,527</u>	<u>3,562,963</u>	<u>64,564</u>
Discoveries:					
Current Year Taxes	5,633,527	0.2826	14,606	14,606	-
Penalties	-		-	-	-
	<u>5,633,527</u>		<u>14,606</u>	<u>14,606</u>	<u>-</u>
Abatements:					
Property Taxes -					
Current Year's Rate	1,605,782	0.2826	(4,538)	-	(4,538)
Penalties	-		-	-	-
	<u>1,605,782</u>		<u>(4,538)</u>	<u>-</u>	<u>(4,538)</u>
Total Property Valuations	<u>\$ 1,290,457,944</u>				
Net Levy			3,637,595	3,577,569	60,026
Uncollected Taxes at June 30, 2012			95,725	87,182	8,543
Current Year's Taxes Collected			<u>\$ 3,541,870</u>	<u>\$ 3,490,387</u>	<u>\$ 51,483</u>
Current Levy Collection Percentage			<u>97.37%</u>	<u>97.56%</u>	<u>85.77%</u>



Compliance Section



**Report On Internal Control Over Financial Reporting
And On Compliance and Other Matters Based On An
Audit Of Financial Statements Performed In Accordance with
*Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Surf City, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town of Surf City's basic financial statements and have issued our report thereon dated July 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of management of Town of Surf City, North Carolina, Board of Commissioners, others within the entity, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

S. Preston Douglas & Associates, LLP

July 27, 2012



**Report on Compliance with Requirements Applicable to Each Major
State Program and Internal Control Over Compliance in Accordance with
Applicable Sections of OMB Circular A-133 and the
State Single Audit Implementation Act**

To the Honorable Mayor and
Members of the Board of Commissioners
Town of Surf City, North Carolina

Compliance

We have audited the Town of Surf City, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. The Town of Surf City's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Surf City's management. Our responsibility is to express an opinion on the Town of Surf City's compliance based on our audit.

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

In our opinion, the Town of Surf City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

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

S. Preston Douglas & Associates, LLP

July 27, 2012

SECTION I. SUMMARY OF AUDITOR'S RESULTS
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Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses	_____ Yes <u> X </u> No
Noncompliance material to financial statements noted	_____ Yes <u> X </u> No

State Awards

Internal control over major State programs:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses	_____ Yes <u> X </u> No
Type of auditor's report issued on compliance for major State programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act	_____ Yes <u> X </u> No

Identification of major State programs:

Program Name:

NC Clean Water Revolving Loan & Grant Program

TOWN OF SURF CITY, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2012

SECTION II. FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III. STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

TOWN OF SURF CITY, NORTH CAROLINA
 Schedule of Expenditures of State Awards
 For the Year Ended June 30, 2012

Grantor Pass-Through Grantor Program Title	State Pass-through Grantor's Number	State Expenditures	Local Expenditures
State Grants:			
Cash Assistance:			
<u>N.C. Department of Transportation</u>			
Powell Bill		119,214	-
<u>N.C. Department of Environment and Natural Resources</u>			
NC Clean Water Revolving Loan & Grant Program		3,588,380	-
Total Assistance		<u>\$ 3,707,594</u>	<u>\$ -</u>

I. BASIS OF ACCOUNTING

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

