

**TOWN OF HOLDEN BEACH  
NORTH CAROLINA**

**ANNUAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

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

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

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2011**

**Mayor:** J. Alan Holden

**Commissioners:** Don Glander, Mayor Pro Tem  
Sandy Miller  
Ray Lehr  
Ken Kyser  
Sheila Young

**Town Manager/Finance Officer:** David Hewett

**Clerk:** Heather Finnell

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

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

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Board of Commissioners  
Holden Beach, 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 Holden Beach, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Holden Beach, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holden Beach, North Carolina, as of June 30, 2011, the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund and the BPART Tax Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance. Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employers Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011 on our consideration of the Town of Holden Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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.

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
September 14, 2011

## **Management's Discussion and Analysis**

As management of the Town of Holden Beach, we offer readers of the Town of Holden Beach's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the basic financial statements and accompanying notes to the financial statements, which follow this narrative.

### **Financial Highlights**

- The assets of the Town of Holden Beach exceeded its liabilities at the close of the fiscal year by \$27,207,250.
- The Town's total net assets increased by \$1,091,071 with approximately 25 percent of the increase coming from business-type activities.
- As of the close of the current fiscal year, the Town of Holden Beach governmental funds reported combined ending fund balances of \$6,308,635, a decrease of \$629,514, in comparison with the prior year. Approximately 83 percent of this total amount, or \$5,235,010, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$470,607 or approximately 11 percent of total General Fund expenditures for the fiscal year.
- The Town of Holden Beach's total debt decreased by \$955,931 during the current fiscal year. This was due to debt payments of \$598,242 in the Water and Sewer Fund and debt payments of \$427,303 in the General Fund.

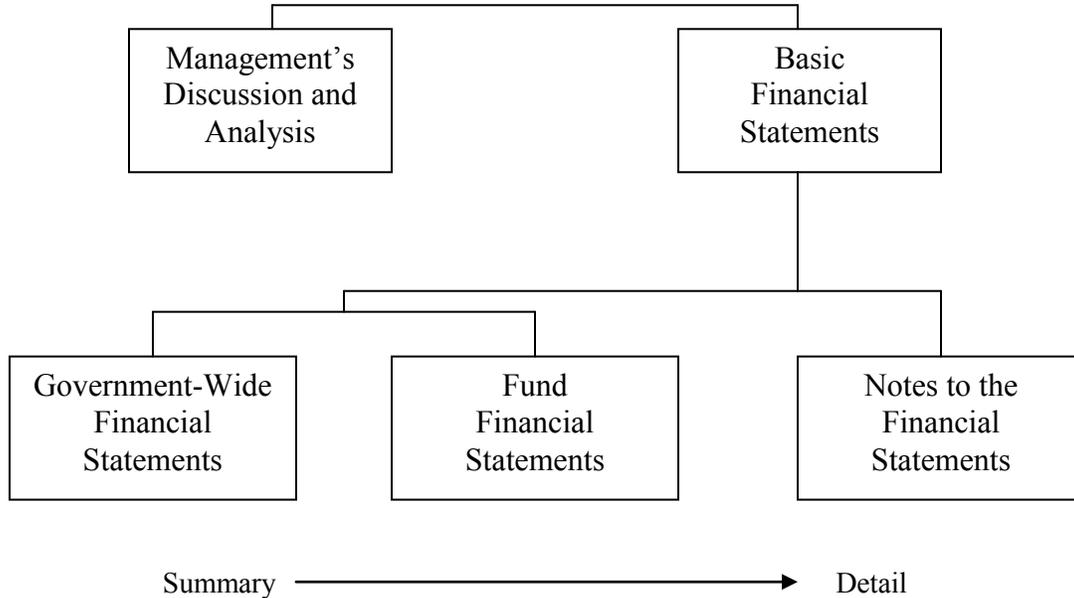
### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town of Holden Beach's basic financial statements comprise two components: 1) government-wide financial statements and 2) fund financial statements along with the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Available fund balance for the General Fund totaled \$1,223,715 or approximately 51 percent of total General Fund expenditures for the fiscal year.

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes can also 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, economic and physical development, human services, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide.

The government-wide financial statements are on Exhibits A and B of this report.

### **Fund Financial Statements**

The fund financial statements 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 Holden Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. 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*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

At year-end, the Town maintained two major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues and expenditures, for the General Fund and the Beach Preservation Access Recreation and Tourism Fund (BPART). All other nonmajor governmental funds have been combined in a single aggregated presentation.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund and the Beach Preservation Access Recreation and Tourism Fund (BPART) to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits C-F of this report.

**Proprietary Funds.** The Town of Holden Beach maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund. The Water and Sewer Fund is considered a major fund of the Town.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town does not have any fiduciary funds.

**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 follow Exhibit I of this report.

**Other Information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the end of the current fiscal year, the Town of Holden Beach was able to report positive balances in all three categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type activities. In the case of the Town, assets exceeded liabilities by \$27,207,250 at the close of the most recent fiscal year. The Town's net assets increased by \$1,091,071 for the fiscal year ended June 30, 2011.

A portion of the Town's net assets (63 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Town of Holden Beach Net Assets**  
**Figure 2**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Assets:</b>						
Current and other assets	\$ 6,494,176	\$ 7,151,450	\$ 3,932,184	\$ 3,814,950	\$ 10,426,360	\$ 10,966,400
Capital assets	<u>7,357,290</u>	<u>6,249,358</u>	<u>19,149,564</u>	<u>19,605,664</u>	<u>26,506,854</u>	<u>25,855,022</u>
Total assets	<u>13,851,466</u>	<u>13,400,808</u>	<u>23,081,748</u>	<u>23,420,614</u>	<u>36,933,214</u>	<u>36,821,422</u>
<b>Liabilities:</b>						
Long-term liabilities	3,947,482	4,291,816	4,689,690	5,309,246	8,637,172	9,601,062
Other liabilities	<u>357,891</u>	<u>379,552</u>	<u>730,901</u>	<u>724,629</u>	<u>1,088,792</u>	<u>1,104,181</u>
Total liabilities	<u>4,305,373</u>	<u>4,671,368</u>	<u>5,420,591</u>	<u>6,033,875</u>	<u>9,725,964</u>	<u>10,705,243</u>
<b>Net Assets:</b>						
Invested in capital assets	3,212,891	2,226,527	13,844,587	13,702,445	17,057,478	15,928,972
Restricted	571,780	103,332	-	-	571,780	103,332
Unrestricted	<u>5,761,422</u>	<u>6,399,581</u>	<u>3,816,570</u>	<u>3,684,294</u>	<u>9,577,992</u>	<u>10,083,875</u>
Total net assets	<u>\$ 9,546,093</u>	<u>\$ 8,729,440</u>	<u>\$ 17,661,157</u>	<u>\$ 17,386,739</u>	<u>\$ 27,207,250</u>	<u>\$ 26,116,179</u>

The largest portion of net assets reflects the Town's investment in capital assets which is \$17,057,478 or 63% of total net assets. An additional \$571,780 (2%) of the Town's net assets represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$9,577,992 (35%) may be used to meet the government's ongoing obligation to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities.

**Governmental Activities.** Governmental activities increased the Town's net assets by \$816,653, accounting for approximately 75 percent of the total \$1,091,071 increase in the net assets of the Town.

**Town of Holden Beach Changes in Net Assets**  
**Figure 3**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 205,508	\$ 362,667	\$ 1,731,733	\$ 1,578,403	\$ 1,937,241	\$ 1,941,070
Operating grants and contributions	206,572	859,891	-	-	206,572	859,891
Capital grants and contributions	40,042	42,938	1,670,701	1,514,390	1,710,743	1,557,328
General revenues:						
Property taxes	1,544,837	1,536,287	-	-	1,544,837	1,536,287
Other taxes	1,942,703	1,534,948	-	-	1,942,703	1,534,948
Other	10,712	8,991	2,242	1,086	12,954	10,077
Total revenues	<u>3,950,374</u>	<u>4,345,722</u>	<u>3,404,676</u>	<u>3,093,879</u>	<u>7,355,050</u>	<u>7,439,601</u>
<b>Expenses:</b>						
General government	737,092	749,423	-	-	737,092	749,423
Public safety	843,201	879,472	-	-	843,201	879,472
Transportation	253,618	263,358	-	-	253,618	263,358
Environmental protection	122,802	110,385	-	-	122,802	110,385
Beach renourishment	958,578	890,462	-	-	958,578	890,462
Interest on long-term debt	183,623	184,970	-	-	183,623	184,970
Water and sewer	-	-	3,165,065	3,060,242	3,165,065	3,060,242
Total expenses	<u>3,098,914</u>	<u>3,078,070</u>	<u>3,165,065</u>	<u>3,060,242</u>	<u>6,263,979</u>	<u>6,138,312</u>
Increase in net assets before transfers	851,460	1,267,652	239,611	33,637	1,091,071	1,301,289
Transfers	<u>(34,807)</u>	<u>(464,479)</u>	<u>34,807</u>	<u>464,479</u>	<u>-</u>	<u>-</u>
Increase in net assets	816,653	803,173	274,418	498,116	1,091,071	1,301,289
<b>Net Assets:</b>						
Beginning of year, July 1	<u>8,729,440</u>	<u>7,926,267</u>	<u>17,386,739</u>	<u>16,888,623</u>	<u>26,116,179</u>	<u>24,814,890</u>
End of year, June 30	<u>\$ 9,546,093</u>	<u>\$ 8,729,440</u>	<u>\$ 17,661,157</u>	<u>\$ 17,386,739</u>	<u>\$ 27,207,250</u>	<u>\$ 26,116,179</u>

**Governmental Activities.** Governmental activities increased the Town's net assets by \$816,653. A key element of this increase is as follows:

- The main factor in the current year increase in net assets was the Town's ability to closely monitor the budget and keep expenditures to approximately the same as the prior year.

**Business-Type Activities.** Business-type activities increased the Town's net assets by \$274,418. A key element of this increase is as follows:

- The main factor in the current year increase in net assets was that tourism picked up slightly over the prior year thus increasing revenues and public works closely monitored their budget and kept expenditures within their budget.

### **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, *available fund balance* may serve as 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. At the end of the current fiscal year, fund balance available in the General Fund was \$1,223,715, while total fund balance reached \$1,335,170. As a measure of the General Fund's liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents approximately 51 percent of total General Fund expenditures. Total fund balance represents approximately 55 percent of that same amount.

At June 30, 2011, the governmental funds of the Town of Holden Beach reported a combined fund balance of \$6,308,635, a decrease of approximately 9 percent over last year. Included in this change in fund balance is an increase in the General Fund of \$566,812, a decrease in the Beach Preservation Access Recreation and Tourism Fund (BPART) of \$627,942, and a decrease in the nonmajor funds of \$568,384.

### **General Fund Budgetary Highlights**

During the fiscal year, the Town revised the budget several times. 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 or expand services.

The budgetary amendments for the fiscal year 2010-2011 totaled \$442,677 in the General Fund, all of which fell in category of number one. One amendment was to fund a capital project, the other two were for transfers for capital outlay and debt service respectively.

**Proprietary Funds.** The Town of Holden Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,816,570. The total change in net assets was \$274,418. Other factors concerning the finances of the Fund have already been addressed in the discussion of the Town of Holden Beach's business-type activities.

## Capital Asset and Debt Administration

**Capital Assets.** The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2011 amounts to \$26,506,854 (net of accumulated depreciation), which is a decrease of \$651,832. The investment in capital assets includes land, buildings, improvements, machinery and equipment, and vehicles.

Major capital asset transactions during the current fiscal year included the following:

- Purchase of equipment in the Water and Sewer Fund
- Purchase of land using BPART fund in the governmental funds

### Town of Holden Beach Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,133,496	\$ 909,947	\$ 140,296	\$ 140,296	\$ 2,273,792	\$ 1,050,243
Buildings and distribution systems	4,999,858	4,999,858	21,803,126	21,787,345	26,802,984	26,787,203
Improvements and infrastructure	424,664	424,664	184,026	184,026	608,690	608,690
Machinery and equipment	312,707	312,707	481,649	464,045	794,356	776,752
Vehicles	447,366	403,386	78,847	101,616	526,213	505,002
Accumulated depreciation	(960,801)	(801,204)	(3,538,380)	(3,071,664)	(4,499,181)	(3,872,868)
Total	<u>\$ 7,357,290</u>	<u>\$ 6,249,358</u>	<u>\$ 19,149,564</u>	<u>\$ 19,605,664</u>	<u>\$ 26,506,854</u>	<u>\$ 25,855,022</u>

Additional information on the Town's capital assets can be found in the notes to the financial statements in note 3.A.

**Long-Term Debt.** As of June 30, 2011, the Town had total debt outstanding of \$9,449,376.

### Town of Holden Beach Outstanding Debt

#### Long-Term Liabilities

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Notes payable	\$ 4,144,399	\$ 4,502,088	\$ 5,304,977	\$ 5,903,219	\$ 9,449,376	\$ 10,405,307
Compensated absences	68,645	55,052	15,812	14,269	84,457	69,321
Total	<u>\$ 4,213,044</u>	<u>\$ 4,557,140</u>	<u>\$ 5,320,789</u>	<u>\$ 5,917,488</u>	<u>\$ 9,533,833</u>	<u>\$ 10,474,628</u>

The Town's total debt decreased by \$955,931 during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation. The current debt limitation for the Town of Holden Beach is \$173,212,738, which is significantly greater than the Town's outstanding general obligation debt.

Additional information on the Town's long-term debt can be found in the notes to the financial statements in note 3.B of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The Town's tax rate remained .069 cents per hundred dollars. The Board of Commissioners was able to maintain the level of services that the citizens of Holden Beach deserve and desire, while budgeting for the debt payments of facilities both on and off the island.

New building construction is expected to slow for 2012, and revenues were adjusted accordingly.

The Water Fund rates and Sewer Fund rates were adjusted to reflect the wholesale rate increase set by Brunswick County. Also, a sewer rate study is programmed for fiscal year 2012 to address adequacy of the Town's rate structure. In a letter dated October 8, 2010, the Local Government Commission (LGC) cautioned the Town saying, "While the overall financial position of the Water and Sewer Fund is currently positive, we see signs of potential weakness in coming years".

### **Requests for Information**

The financial report is designed to provide a general overview of the Town of Holden Beach's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests, for additional financial information, should be addressed to the Town Manager, Town of Holden Beach, 110 Rothschild Street, Holden Beach, North Carolina 28462.

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 5,826,952	\$ 1,923,793	\$ 7,750,745
Taxes receivable, net	71,087	-	71,087
Accounts receivable, net	341,497	696,743	1,038,240
Due from other governments	108,890	13,273	122,163
Internal balances	(4,282)	4,282	-
Inventories	-	64,070	64,070
Cash and cash equivalents, restricted	150,030	1,230,021	1,380,051
Total current assets	<u>6,494,174</u>	<u>3,932,182</u>	<u>10,426,356</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	2,133,496	140,296	2,273,792
Other capital assets, net of depreciation	5,223,794	19,009,268	24,233,062
Total capital assets	<u>7,357,290</u>	<u>19,149,564</u>	<u>26,506,854</u>
Total assets	<u>13,851,464</u>	<u>23,081,746</u>	<u>36,933,210</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable and accrued liabilities	6,522	99,800	106,322
Due to other governments	51,421	-	51,421
Unearned revenues	34,384	-	34,384
Compensated absences, due in one year	41,200	9,500	50,700
Bonds notes payable, due in one year	224,362	621,599	845,961
Total current liabilities	<u>357,889</u>	<u>730,899</u>	<u>1,088,788</u>
Long-term liabilities:			
Compensated absences	27,445	6,312	33,757
Bonds and notes payable	3,920,037	4,683,378	8,603,415
Total long-term liabilities	<u>3,947,482</u>	<u>4,689,690</u>	<u>8,637,172</u>
Total liabilities	<u>4,305,371</u>	<u>5,420,589</u>	<u>9,725,960</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	3,212,891	13,844,587	17,057,478
Restricted for:			
Stabilization for State statute	428,262	-	428,262
Streets	143,518	-	143,518
Unrestricted	5,761,422	3,816,570	9,577,992
Total net assets	<u>\$ 9,546,093</u>	<u>\$ 17,661,157</u>	<u>\$ 27,207,250</u>

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

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 737,092	\$ 163,467	\$ 205,702	\$ -
Public safety	843,201	3,789	-	-
Transportation	253,618	-	-	40,042
Environmental protection	122,802	-	-	-
Beach renourishment	958,578	38,252	870	-
Interest and fees	183,623	-	-	-
Total governmental activities	<u>3,098,914</u>	<u>205,508</u>	<u>206,572</u>	<u>40,042</u>
<b>Business-Type Activities:</b>				
Water and sewer	<u>3,165,065</u>	<u>1,731,733</u>	<u>-</u>	<u>1,670,701</u>
Total primary government	<u>\$ 6,263,979</u>	<u>\$ 1,937,241</u>	<u>\$ 206,572</u>	<u>\$ 1,710,743</u>

### General Revenues:

#### Taxes:

- Property taxes, levied for general purposes
- Sales and use taxes
- Other taxes

Investment earnings

Transfers

Total general revenues and transfers

Change in net assets

#### Net Assets:

Beginning of year - July 1

End of year - June 30

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

**Exhibit B**

<b>Net (Expense) Revenue and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (367,923)	\$ -	\$ (367,923)
(839,412)	-	(839,412)
(213,576)	-	(213,576)
(122,802)	-	(122,802)
(919,456)	-	(919,456)
(183,623)	-	(183,623)
(2,646,792)	-	(2,646,792)
-	237,369	237,369
(2,646,792)	237,369	(2,409,423)
1,544,837	-	1,544,837
175,390	-	175,390
1,767,313	-	1,767,313
10,712	2,242	12,954
(34,807)	34,807	-
3,463,445	37,049	3,500,494
816,653	274,418	1,091,071
8,729,440	17,386,739	26,116,179
\$ 9,546,093	\$ 17,661,157	\$ 27,207,250

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

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011

	Major Fund			Total Governmental Fund
	General Fund	BPART Tax Fund	Nonmajor Funds	
<b>Assets:</b>				
Cash and cash equivalents	\$ 1,174,340	\$ 4,314,743	\$ 337,869	\$ 5,826,952
Taxes receivable, net	71,087	-	-	71,087
Accounts receivable, net	-	313,224	28,273	341,497
Due from other governments	105,307	3,583	-	108,890
Due from other funds	-	-	55,676	55,676
Cash and cash equivalents, restricted	150,030	-	-	150,030
Total assets	<u>\$ 1,500,764</u>	<u>\$ 4,631,550</u>	<u>\$ 421,818</u>	<u>\$ 6,554,132</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 6,313	\$ 209	\$ -	\$ 6,522
Due to other governments	-	51,421	-	51,421
Due to other funds	59,958	-	-	59,958
Deferred revenue	99,323	-	28,273	127,596
Total liabilities	<u>165,594</u>	<u>51,630</u>	<u>28,273</u>	<u>245,497</u>
<b>Fund Balances:</b>				
Restricted:				
Stabilization by State statute	111,455	316,807	-	428,262
Streets - Powell Bill	143,518	-	-	143,518
Debt covenant	6,572	-	-	6,572
Beach renourishment	-	4,263,113	393,545	4,656,658
Assigned:				
Assigned for general government debt	357,429	-	-	357,429
Assigned for subsequent year's expenditures	245,589	-	-	245,589
Unassigned	470,607	-	-	470,607
Total fund balances	<u>1,335,170</u>	<u>4,579,920</u>	<u>393,545</u>	<u>6,308,635</u>
Total liabilities and fund balances	<u>\$ 1,500,764</u>	<u>\$ 4,631,550</u>	<u>\$ 421,818</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,357,290
Liabilities for earned, but deferred, revenues in the fund statements	93,212
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(4,213,044)</u>
Net assets of governmental activities	<u>\$ 9,546,093</u>

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

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

	Major Fund			Total Governmental Fund
	General Fund	BPART Tax Fund	Nonmajor Funds	
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,536,086	\$ -	\$ -	\$ 1,536,086
Other taxes and licenses	181,877	1,520,605	240,221	1,942,703
Unrestricted intergovernmental	204,727	-	-	204,727
Restricted intergovernmental	40,042	-	-	40,042
Permits and fees	146,138	-	-	146,138
Sales and services	6,713	-	-	6,713
Investment earnings	1,688	7,322	1,702	10,712
Miscellaneous	50,380	3,908	214	54,502
Total revenues	<u>2,167,651</u>	<u>1,531,835</u>	<u>242,137</u>	<u>3,941,623</u>
<b>Expenditures:</b>				
Current:				
General government	661,664	-	10,122	671,786
Public safety	815,772	-	-	815,772
Transportation	217,956	-	-	217,956
Environmental protection	111,540	-	-	111,540
Beach renourishment	-	2,159,777	18,187	2,177,964
Debt service:				
Principal retirement	427,303	-	-	427,303
Interest and fees	183,623	-	-	183,623
Total expenditures	<u>2,417,858</u>	<u>2,159,777</u>	<u>28,309</u>	<u>4,605,944</u>
Revenues over (under) expenditures	<u>(250,207)</u>	<u>(627,942)</u>	<u>213,828</u>	<u>(664,321)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers (to) from Capital Reserve Fund	245,614	-	-	245,614
Transfer (to) from Capital Project Fund	565,475	-	-	565,475
Transfers (to) from Enterprise Fund	(34,807)	-	-	(34,807)
Transfers (to) from Special Revenue Fund	(28,877)	-	-	(28,877)
Transfers to General Fund	-	-	(811,089)	(811,089)
Transfer from General Fund	-	-	28,877	28,877
Long-term debt issued	69,614	-	-	69,614
Total other financing sources (uses)	<u>817,019</u>	<u>-</u>	<u>(782,212)</u>	<u>34,807</u>
Net change in fund balances	566,812	(627,942)	(568,384)	(629,514)
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>768,358</u>	<u>5,207,862</u>	<u>961,929</u>	<u>6,938,149</u>
End of year - June 30	<u>\$ 1,335,170</u>	<u>\$ 4,579,920</u>	<u>\$ 393,545</u>	<u>\$ 6,308,635</u>

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

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

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

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ (629,514)
<p>Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected or is expected to be collected within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:</p>	
Property taxes and other sales and services	(5,861)
Expenses related to compensated absences and other accruals that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(13,593)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	1,296,053
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(187,695)
Loss on disposal of capital assets does not require current financial resources and is not reported in the fund financial statements.	(426)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	427,303
Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	<u>(69,614)</u>
Change in net assets of governmental activities (Exhibit B)	<u>\$ 816,653</u>

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

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**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

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

	<b>General Fund</b>			<b>Variance with Final Budget Over/Under</b>
	<b>Budgeted Amounts</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,516,373	\$ 1,516,054	\$ 1,536,086	\$ 20,032
Other taxes and licenses	207,600	207,600	181,877	(25,723)
Unrestricted intergovernmental	170,400	170,400	204,727	34,327
Restricted intergovernmental	42,500	40,000	40,042	42
Permits and fees	71,800	113,900	146,138	32,238
Sales and services	1,250	1,000	6,713	5,713
Investment earnings	7,000	1,500	1,688	188
Miscellaneous	850	35,850	50,380	14,530
Total revenues	<u>2,017,773</u>	<u>2,086,304</u>	<u>2,167,651</u>	<u>81,347</u>
<b>Expenditures:</b>				
Current:				
General government	804,484	705,103	661,664	43,439
Public safety	834,731	842,787	815,772	27,015
Transportation	327,350	243,000	217,956	25,044
Environmental protection	111,750	109,050	111,540	(2,490)
Beach renourishment	-	-	-	-
Debt service:				
Principal retirement	410,500	427,303	427,303	-
Interest and fees	-	183,623	183,623	-
Total expenditures	<u>2,488,815</u>	<u>2,510,866</u>	<u>2,417,858</u>	<u>93,008</u>
Revenues over (under) expenditures	<u>(471,042)</u>	<u>(424,562)</u>	<u>(250,207)</u>	<u>174,355</u>
<b>Other Financing Sources (Uses):</b>				
Transfers (to) from Capital Reserve	244,059	245,614	245,614	-
Transfers (to) from Capital Project Fund	(323,080)	515,407	565,475	50,068
Transfers (to) from Enterprise Fund	(464,479)	(34,808)	(34,807)	1
Transfers (to) from Special Revenue Fund	-	(28,877)	(28,877)	-
Transfers (to) from General Fund	-	-	-	-
Proceeds from long-term debt	71,042	71,042	69,614	(1,428)
Fund balance appropriated	943,500	(343,816)	-	343,816
Total other financing sources (uses)	<u>471,042</u>	<u>424,562</u>	<u>817,019</u>	<u>392,457</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	566,812	<u>\$ 566,812</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>768,358</u>	
End of year - June 30			<u>\$ 1,335,170</u>	

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

Exhibit F

<b>BPART Tax Fund</b>			
<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget Over/Under</b>
<b>Original</b>	<b>Final</b>		
\$ -	\$ -	\$ -	\$ -
1,332,250	1,425,616	1,520,605	94,989
-	-	-	-
-	-	-	-
-	-	-	-
55,000	15,000	7,322	(7,678)
4,750	4,984	3,908	(1,076)
<u>1,392,000</u>	<u>1,445,600</u>	<u>1,531,835</u>	<u>86,235</u>
-	-	-	-
45,000	-	-	-
-	-	-	-
26,500	-	-	-
1,320,500	2,459,646	2,159,777	299,869
-	-	-	-
-	-	-	-
<u>1,392,000</u>	<u>2,459,646</u>	<u>2,159,777</u>	<u>299,869</u>
-	(1,014,046)	(627,942)	386,104
-	-	-	-
-	-	-	-
-	-	-	-
-	(186,854)	-	186,854
-	-	-	-
-	1,200,900	-	(1,200,900)
-	1,014,046	-	(1,014,046)
<u>\$ -</u>	<u>\$ -</u>	(627,942)	<u>\$ (627,942)</u>
		<u>5,207,862</u>	
		<u>\$ 4,579,920</u>	

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

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

### STATEMENT OF NET ASSETS PROPRIETARY FUND JUNE 30, 2011

	<u>Water and Sewer Fund</u>
<b>Assets:</b>	
Current assets:	
Cash and cash equivalents	\$ 1,923,793
Accounts receivable, net	696,743
Due from other funds	-
Due from other governments	13,273
Inventories	64,070
Cash and cash equivalents, restricted	<u>1,230,021</u>
Total current assets	<u>3,927,900</u>
Capital assets:	
Land, non-depreciable improvements and construction in progress	140,296
Other capital assets, net of depreciation	<u>19,009,268</u>
Total capital assets, net	<u>19,149,564</u>
Total assets	<u>23,077,464</u>
<b>Liabilities and Net Assets:</b>	
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable and accrued liabilities	1,289
Due to other funds	(4,282)
Accrued interest	98,511
Compensated absences	9,500
Notes payable - current maturities	<u>621,599</u>
Total current liabilities	<u>726,617</u>
Non-current liabilities:	
Compensated absences	6,312
Notes payable - non-current maturities	<u>4,683,378</u>
Total non-current liabilities	<u>4,689,690</u>
Total liabilities	<u>5,416,307</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	13,844,587
Unrestricted	<u>3,816,570</u>
Total net assets	<u>\$ 17,661,157</u>

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

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

	<u>Water and Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 1,520,018
Taps and connection fees	22,948
Impact fees	19,366
Share fees	24,507
Other operating revenues	<u>144,894</u>
Total operating revenues	<u>1,731,733</u>
<b>Operating Expenses:</b>	
Administration	70,421
Water and sewer operations	1,122,819
Depreciation	<u>489,485</u>
Total operating expenses	<u>1,682,725</u>
Operating income (loss)	<u>49,008</u>
<b>Non-Operating Revenues (Expenses):</b>	
Investment earnings	2,242
Capital charges	1,670,701
City capital charges	(1,248,443)
Interest expense	<u>(233,897)</u>
Total non-operating revenues (expenses)	<u>190,603</u>
Income (loss) before transfers	239,611
Transfers in (out)	<u>34,807</u>
Change in net assets	274,418
<b>Net Assets:</b>	
Beginning of year - July 1	<u>17,386,739</u>
End of year - June 30	<u>\$ 17,661,157</u>

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

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

### STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPE - ENTERPRISE FUND FOR THE YEAR ENDED JUNE 30, 2011

	<u>Water and Sewer Fund</u>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 1,705,466
Cash paid for goods and services	(946,865)
Cash paid to employees	(219,881)
Net cash provided (used) by operating activities	<u>538,720</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Capital charges paid to City	(1,248,443)
Capital charges paid by customers	1,670,701
Transfers to other funds	34,807
Change in due to / from other funds	(4,282)
Net cash used by non-capital financing activities	<u>452,783</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(33,385)
Principal paid on bonds	(598,242)
Interest paid on bonds	(248,333)
Net cash provided (used) by capital and related financing activities	<u>(879,960)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest on investments	<u>2,242</u>
Net increase (decrease) in cash and cash equivalents	113,785
<b>Cash and Cash Equivalents:</b>	
Beginning of year - July 1	<u>3,040,029</u>
End of year - June 30	<u>\$ 3,153,814</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>	
Operating income (loss)	<u>\$ 49,008</u>
Adjustments to reconcile operating income loss to net cash provided (used) by operating activities:	
Depreciation	489,485
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(26,267)
(Increase) decrease in due from other governments	4,287
(Increase) decrease in inventory	22,813
Increase (decrease) in accounts payable and accrued liabilities	(2,149)
Increase (decrease) in compensated absences payable	1,543
Total adjustments	<u>489,712</u>
Net cash provided (used) by operating activities	<u>\$ 538,720</u>

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

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Holden Beach (the “Town”) 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 is a municipal corporation that is governed by an elected Mayor and a five-member Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the Town and any component units legally separate entities for which the Town is financially accountable. The Town has no component units.

#### 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.

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

# **TOWN OF HOLDEN BEACH, NORTH CAROLINA**

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

The Town reports the following major governmental funds:

### **General Fund**

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

### **BPART Tax Fund**

This special revenue fund is used to account for occupancy taxes collected which are used to promote tourism and beach renourishment.

The Town reports the following nonmajor governmental funds:

### **Canal Project Fund**

This special revenue fund is used to account for assessments collected which are used for canal projects.

### **Capital Reserve Fund**

This capital project fund is used to account for resources reserved for various capital acquisitions and projects.

The Town reports the following major enterprise funds:

### **Proprietary Fund**

#### **Water and Sewer Fund**

The enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has one Enterprise Fund, the Water and Sewer Fund.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### 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 and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Brunswick County is responsible for

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

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

Sales taxes 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, BPART Tax Fund, the Capital Reserve Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for any grant project special revenue funds or capital project funds, except the Capital Reserve Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund. All amendments must be approved by the governing board. During the year, several amendments were made to the original budget. The amendments did not materially affect the 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.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### E. Assets, Liabilities, and Fund Equity

#### Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 15-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts, such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

#### Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Town considers demand deposits and investments purchased with an original maturity of three months or less, which are not limited as to use, to be cash and cash equivalents.

#### Restricted Assets

Cash and investments are restricted in the Enterprise Fund for the customer deposits held by the Town for payments on the sewer system, future capital projects, and utility deposits. These deposits are restricted to the service for which the deposit was collected.

In the General Fund, Powell Bill funds and USDA funds reserved for debt payments are restricted. The restricted assets of \$143,518 represent Powell Bill which is restricted because it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. The restricted assets of \$6,512 in the General Fund represent the balance required in a debt covenant with the USDA.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### Ad Valorem Taxes Receivable

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

### Allowances for Doubtful Accounts

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

### Inventory

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased.

### 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. 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. 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. The Town defines capital assets as assets with an individual cost of \$5,000 or more.

Capital assets of the Town are depreciated on a straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Buildings	50
Other improvements	50
Infrastructure	30
Equipment	10
Furniture and fixtures	10
Computers	10
Vehicles	6
Miscellaneous	3

# **TOWN OF HOLDEN BEACH, NORTH CAROLINA**

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

### **Long-Term Obligations**

In the government-wide financial statements in the 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.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

### **Compensated Absences**

The vacation policy of the Town provides five days vacation during the first year of employment, ten days during the second through the third years of employment, 15 days during the fourth through ninth year of employment, and 20 days after 10 years of employment. The maximum accumulation of vacation is 30 days. Vacation is fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

### **Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### **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.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### **Fund Balances**

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

The governmental fund types classify fund balances as follows:

### **Non-Spendable Fund Balance**

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

### **Restricted Fund Balance**

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

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

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

*Restricted for Debt* – portion of fund balance that is restricted by creditor.

*Restricted for Beach Renourishment* – portion of fund balance that is restricted by revenue source.

### **Committed Fund Balance**

This classification represents a portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town'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**

This classification represents a portion of fund balance that the Town intends to use for specific purposes.

*Assigned for General Government Debt* – portion of fund balance that has been budgeted by the Board for debt payment.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

*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.

### **Unassigned Fund Balance**

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

The Town of Holden Beach has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to 25% of budgeted expenditures.

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	\$ 1,335,170
Less:	
Stabilization by State statute	<u>111,455</u>
Total available fund balance	<u>\$ 1,223,715</u>

## **2. Detail Notes on All Funds**

### **A. Assets**

#### **Deposits**

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the entity's name. 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

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$8,241,822 and a bank balance of \$8,268,226. Of the bank balance, \$500,000 was covered by federal depository insurance and \$7,768,226 was covered by collateral held under the Pooling Method.

At June 30, 2011, the Town had \$100 cash on hand.

### **Investments**

At June 30, 2011, the Town of Holden Beach had \$888,874 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.

*Interest Rate Risk.* The Town has no formal investment policy regarding interest rate risk.

*Credit Risk.* The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2011.

### **Receivables - Allowances for Doubtful Accounts**

The amounts presented in the Statement of Net Assets are net of the following allowance for doubtful accounts:

#### **Governmental Activities:**

Taxes receivable	\$ 38,500
Accounts receivable	2,363

#### **Business-Type Activities:**

Accounts receivable	\$ 79,863
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# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### Capital Assets

#### Governmental Activities

A summary of changes in the Town's governmental capital assets is as follows:

	<b>Balance July 1, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2011</b>
<b>Governmental Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 909,947	\$ 1,223,549	\$ -	\$ 2,133,496
Total non-depreciable capital assets	909,947	1,223,549	-	2,133,496
<b>Depreciable Capital Assets:</b>				
Buildings	4,999,858	-	-	4,999,858
Other improvements and infrastructure	424,664	-	-	424,664
Equipment	312,707	-	-	312,707
Vehicles	403,386	72,504	(28,524)	447,366
Total depreciable capital assets	6,140,615	72,504	(28,524)	6,184,595
<b>Less Accumulated Depreciation:</b>				
Buildings	290,975	99,998	-	390,973
Other improvements and infrastructure	27,260	8,551	-	35,811
Equipment	208,676	25,074	-	233,750
Vehicles	274,293	54,072	(28,098)	300,267
Total accumulated depreciation	801,204	\$ 187,695	\$ (28,098)	960,801
 Total depreciable capital assets, net	 5,339,411			 5,223,794
 Governmental activity capital assets, net	 \$ 6,249,358			 \$ 7,357,290

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

<b>Governmental Activities:</b>	
General government	\$ 52,554
Public safety	86,340
Transportation	35,662
Environmental protection	11,262
Beach renourishment	1,877
Total	\$ 187,695

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### Business-Type Activities

#### Water and Sewer Fund

The capital assets of the Proprietary Fund of the Town at June 30, 2011 were as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Business-Type Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 140,296	\$ -	\$ -	\$ 140,296
Total non-depreciable capital assets	<u>140,296</u>	<u>-</u>	<u>-</u>	<u>140,296</u>
<b>Depreciable Capital Assets:</b>				
Plant and distribution systems	21,787,345	15,781	-	21,803,126
Infrastructure	184,026	-	-	184,026
Furniture and maintenance equipment	464,045	17,604	-	481,649
Vehicles	<u>101,616</u>	<u>-</u>	<u>(22,769)</u>	<u>78,847</u>
Total depreciable capital assets	<u>22,537,032</u>	<u>33,385</u>	<u>(22,769)</u>	<u>22,547,648</u>
<b>Less Accumulated Depreciation:</b>				
Plant and distribution systems	2,805,122	435,774	-	3,240,896
Infrastructure	18,112	3,680	-	21,792
Furniture and maintenance equipment	170,899	39,768	-	210,667
Vehicles	<u>77,531</u>	<u>10,263</u>	<u>(22,769)</u>	<u>65,025</u>
Total accumulated depreciation	<u>3,071,664</u>	<u>\$ 489,485</u>	<u>\$ (22,769)</u>	<u>3,538,380</u>
Total depreciable capital assets, net	<u>19,465,368</u>			<u>19,009,268</u>
Business-type activity capital assets, net	<u>\$ 19,605,664</u>			<u>\$ 19,149,564</u>

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### B. Liabilities

#### Payables

Payables at the government-wide level at June 30, 2011, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
<b>Governmental Activities:</b>			
General Fund	\$ 5,557	\$ 756	\$ 6,313
Other governmental	209	-	209
Total governmental activities	<u>\$ 5,766</u>	<u>\$ 756</u>	<u>\$ 6,522</u>
<b>Business-Type Activities:</b>			
Water and Sewer Fund	<u>\$ 1,289</u>	<u>\$ 98,511</u>	<u>\$ 99,800</u>

#### Pension Plan Obligations

##### Local Governmental Employees' Retirement System

**Plan Description.** The Town contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The 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 11.240% and 11.300%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$120,844, \$72,013, and \$106,313 respectively. The contributions made by the Town equaled the required contributions for each year.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### Law Enforcement Officers' Special Separation Allowance-

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>8</u>
Total	<u><u>8</u></u>

A separate report was not issued for the plan.

### Summary of Significant Accounting Policies

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

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

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

The Town has not obtained an actuarial valuation of the plan because its required contributions are considered immaterial.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### **Supplemental Retirement Income Plan for Law Enforcement Officers**

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2011 were \$27,070, which consisted of \$19,610 from the Town, and \$7,460 from the law enforcement officers.

### **Supplemental Retirement Income Plan for Employees Not Engaged in Law Enforcement**

**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 Town employees not engaged in law enforcement. 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 Employees not Engaged in Law Enforcement 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 employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2011 were \$39,783 which consisted of \$19,953 from the Town and \$19,830 from the employees.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### Other Employment Benefit

The Town has also elected to provide death benefits to Law Enforcement Officers 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 law enforcement employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

### Deferred/Unearned Revenues

The balance in deferred revenues on the fund statements and unearned revenues on the government-wide statements at June 30, 2011, is composed of the following elements:

	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
Taxes receivable	\$ 99,323	\$ 34,384
Other receivables	28,273	-
Total	<u>\$ 127,596</u>	<u>\$ 34,384</u>

### Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, \$2,000,000, auto liability, \$2,000,000, police professional liability \$2,000,000, and public officials liability in excess of \$1,000,000; property in excess of \$500,000; and \$500,000 up to statutory limits for workers' compensation for the July 1, 2010 through July 1, 2011 policy period. 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.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

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 policies with N.C. Farm Bureau Insurance. These policies have different coverage amounts based upon the particular building that is being covered.

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 individually bonded for a total of \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

### Long-Term Obligations

Notes payable are summarized as follows:

#### Governmental Activities:

4.25% USDA note, payable in annual installments of \$65,720, including interest, final payment due May 2034; secured by real estate	\$ 948,127
3.81% note, payable in annual installments of \$200,000, plus interest; final payment due March 2028; secured by real estate	<u>3,196,272</u>
Total	<u>\$ 4,144,399</u>

#### Business-Type Activities:

3.79% note, payable in annual installments of \$472,309, including interest; final payment due November 2019; secured by real estate	\$ 3,546,688
3.79% note, payable in annual installments of \$294,415, including interest; final payment due November 2019; secured by real estate	1,651,804
5.18% note, payable in annual installments of \$57,412, including interest; final payment due January 2013; secured by equipment	<u>106,485</u>
Total	<u>\$ 5,304,977</u>

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

Annual debt service requirements to maturity for these long-term obligations are as follows:

Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 224,362	\$ 165,259	\$ 389,621	\$ 621,599	\$ 202,535	\$ 824,134
2013	225,968	179,715	405,683	645,878	178,257	824,135
2014	226,811	145,282	372,093	613,703	153,021	766,724
2015	227,973	136,500	364,473	636,962	129,762	766,724
2016	229,185	127,668	356,853	661,103	105,621	766,724
2017-2021	1,166,032	503,933	1,669,965	2,125,732	184,853	2,310,585
2022-2026	1,205,267	274,198	1,479,465	-	-	-
2027-2031	450,043	82,142	532,185	-	-	-
2032-2036	188,758	17,323	206,081	-	-	-
Total	<u>\$ 4,144,399</u>	<u>\$ 1,632,020</u>	<u>\$ 5,776,419</u>	<u>\$ 5,304,977</u>	<u>\$ 954,049</u>	<u>\$ 6,259,026</u>

At June 30, 2011, the Town had no bonds authorized, but unissued, and had a legal debt margin of \$173,212,738.

### Changes in Long-Term Liabilities

A summary of long-term debt is as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011	Current Portion of Balance
<b>Governmental Activities:</b>					
Notes payable	\$ 4,502,088	\$ 69,614	\$ 427,303	\$ 4,144,399	\$ 224,362
Compensated absences	55,052	36,891	23,298	68,645	41,200
Total	<u>\$ 4,557,140</u>	<u>\$ 106,505</u>	<u>\$ 450,601</u>	<u>\$ 4,213,044</u>	<u>\$ 265,562</u>
<b>Business-Type Activities:</b>					
Notes payable	\$ 5,903,219	\$ -	\$ 598,242	\$ 5,304,977	\$ 621,599
Compensated absences	14,269	9,780	8,237	15,812	9,500
Total	<u>\$ 5,917,488</u>	<u>\$ 9,780</u>	<u>\$ 606,479</u>	<u>\$ 5,320,789</u>	<u>\$ 631,099</u>

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

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

**C. Interfund Balances and Activity**

**Transfers to/from Other Funds**

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

<u>Fund</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>
General	\$ 63,684	\$ -	
Enterprise	-	34,807	To reimburse for capital outlay
Special Revenue Fund	-	28,877	Transfer fund for street work
General	-	811,089	
Capital Project Fund	245,614	-	To close capital reserve for capital expenditures
Special Revenue Fund	565,475	-	To reimburse for start up project costs
	<u>\$ 874,773</u>	<u>\$ 874,773</u>	

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

<u>Fund</u>	<u>Receivable Amount</u>	<u>Payable Amount</u>	<u>Purpose</u>
Special Revenue Fund-Canal	\$ 55,676	\$ -	To pave roads
Enterprise Fund	4,282	-	Impact fees
General Fund	-	59,958	

**3. Jointly Governed Organization**

The Town, in conjunction with twenty other local governments, participates in the Cape Fear Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing boards. The Town paid membership fees of \$465 to the Council during the fiscal year ended June 30, 2011.

The Town, in conjunction with Brunswick County and six other municipalities is a member of the Brunswick Beaches Consortium (Consortium). The participating governments established the Consortium to plan and implement programs and projects directed toward preservation and maintenance of the ocean beaches. Each participating government appoints one representative to the policy board. The Town contributed \$10,000 to the Consortium during the fiscal year ended June 30, 2011.

# **TOWN OF HOLDEN BEACH, NORTH CAROLINA**

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

### **4. Contracted Service Agreement**

The Town has entered into a sewer service agreement with Brunswick County for the East/West Brunswick Regional Wastewater Project. The term of the agreement is from July 2002 for thirty (30) years or five years after the last maturity of the bonds issued to finance the project. Brunswick County has financed, constructed, and is operating a regional sewer system and the Town, which is using this system for transmission and treatment of the Town's sewage, has agreed to participate with the County in financing the project. The Town is responsible for assisting in paying for a portion of the operation and maintenance of the system, and the Town also has to pay its share of the financing costs the County incurred for construction. The total amounts that the Town is responsible for are approximately 22.43% of the County's 2004A Revenue Bond of \$31,540,000; 33.33% of the County's 2004 Revolving Loan of \$20,000,000; and 33.33% of the County's 2005 Revolving Loan of \$10,000,000. The Town also has to pay the same percentages of the interest on these debts. The payments made in the current year for the capital charges to Brunswick County were made in September 2010 and March of 2011 in the total amount of approximately \$1,248,443. The subsequent years' payment will decrease gradually over the 25 year life span of the debt to a final debt payment of \$606,451 in 2029. The Town levies a capital charge to residents in order to fund the payments.

### **5. Summary Disclosure of Significant Contingencies**

#### **Federal and State Assisted Programs**

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

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Current year	\$ 1,472,554	\$ 1,474,420	\$ 1,866	\$ 1,474,580
Prior year	40,000	50,304	10,304	34,889
Penalties and interest	3,500	11,362	7,862	7,387
Total ad valorem taxes	<u>1,516,054</u>	<u>1,536,086</u>	<u>20,032</u>	<u>1,516,856</u>
<b>Other Taxes and Licenses:</b>				
Privilege licenses	7,600	6,487	(1,113)	7,544
Local option sales tax	200,000	175,390	(24,610)	182,018
Total other taxes and licenses	<u>207,600</u>	<u>181,877</u>	<u>(25,723)</u>	<u>189,562</u>
<b>Unrestricted Intergovernmental:</b>				
Beer and wine tax	4,000	4,249	249	1,345
Telecommunications sales tax	12,500	13,454	954	13,159
Franchise tax	94,000	119,501	25,501	110,637
Video program tax	59,900	67,523	7,623	69,590
Sales tax refund - reclass	-	-	-	6,745
Total unrestricted intergovernmental revenues	<u>170,400</u>	<u>204,727</u>	<u>34,327</u>	<u>201,476</u>
<b>Restricted Intergovernmental:</b>				
Powell Bill allocation	40,000	40,042	42	39,399
Total restricted intergovernmental revenues	<u>40,000</u>	<u>40,042</u>	<u>42</u>	<u>39,399</u>
<b>Permits and Fees:</b>				
Building permits	100,100	124,915	24,815	125,543
CAMA permits and reimbursements	3,000	8,115	5,115	7,140
Cable franchise fees	7,300	8,771	1,471	7,483
Other permits and fees	3,500	4,337	837	3,953
Total permits and fees	<u>113,900</u>	<u>146,138</u>	<u>32,238</u>	<u>144,119</u>
<b>Sales and Services:</b>				
Sale of assets	500	6,625	6,125	3,726
Sales and services	500	88	(412)	44
Total sales and services	<u>1,000</u>	<u>6,713</u>	<u>5,713</u>	<u>3,770</u>

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>		<u>2010</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Investment Earnings</b>	1,500	1,688	188	1,620
<b>Miscellaneous Revenues</b>	35,850	50,380	14,530	6,382
Total revenues	<u>2,086,304</u>	<u>2,167,651</u>	<u>81,347</u>	<u>2,103,184</u>
<b>Expenditures:</b>				
<b>General Government:</b>				
<b>Governing Board:</b>				
Salaries and employee benefits	8,400	8,397	3	7,803
Other operating expenditures	134,013	102,544	31,469	118,121
Capital outlay	-	-	-	43,839
Total	<u>142,413</u>	<u>110,941</u>	<u>31,472</u>	<u>169,763</u>
<b>Administration:</b>				
Salaries and employee benefits	375,190	369,619	5,571	399,019
Other operating expenditures	187,500	181,104	6,396	182,207
Total	<u>562,690</u>	<u>550,723</u>	<u>11,967</u>	<u>581,226</u>
Total general government	<u>705,103</u>	<u>661,664</u>	<u>43,439</u>	<u>750,989</u>
<b>Public Safety:</b>				
<b>Police:</b>				
Salaries and employee benefits	500,700	486,572	14,128	533,389
Other operating expenditures	88,150	84,233	3,917	78,109
Capital outlay	26,479	26,478	1	-
Total	<u>615,329</u>	<u>597,283</u>	<u>18,046</u>	<u>611,498</u>
<b>Inspections:</b>				
Salaries and employee benefits	147,884	146,124	1,760	124,264
Other operating expenditures	45,116	38,018	7,098	59,004
Capital outlay	34,458	34,347	111	-
Total	<u>227,458</u>	<u>218,489</u>	<u>8,969</u>	<u>183,268</u>
Total public safety	<u>842,787</u>	<u>815,772</u>	<u>27,015</u>	<u>794,766</u>

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>		<u>Variance</u>	<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Over/Under</u>	<u>Actual</u>
<b>Transportation:</b>				
<b>Streets:</b>				
Salaries and employee benefits	107,150	108,055	(905)	109,698
Other operating expenditures	<u>135,850</u>	<u>109,901</u>	<u>25,949</u>	<u>118,631</u>
Total	<u>243,000</u>	<u>217,956</u>	<u>25,044</u>	<u>228,329</u>
<b>Environmental Protection:</b>				
<b>Sanitation:</b>				
Salaries and employee benefits	56,490	60,298	(3,808)	49,237
Other operating expenditures	<u>52,560</u>	<u>51,242</u>	<u>1,318</u>	<u>50,086</u>
Total	<u>109,050</u>	<u>111,540</u>	<u>(2,490)</u>	<u>99,323</u>
<b>Debt Service:</b>				
Principal	427,303	427,303	-	251,925
Interest	<u>183,623</u>	<u>183,623</u>	<u>-</u>	<u>184,970</u>
Total debt service	<u>610,926</u>	<u>610,926</u>	<u>-</u>	<u>436,895</u>
Total expenditures	<u>2,510,866</u>	<u>2,417,858</u>	<u>93,008</u>	<u>2,310,302</u>
Revenues over (under) expenditures	<u>(424,562)</u>	<u>(250,207)</u>	<u>174,355</u>	<u>(207,118)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from General Fund Capital Reserve	245,614	245,614	-	-
Transfers from Special Revenue Fund	515,407	565,475	50,068	(323,080)
Transfers (to) from Enterprise Fund	(34,808)	(34,807)	1	(464,479)
Transfers (to) from Special Revenue Fund	(28,877)	(28,877)	-	-
Long-term debt issued	71,042	69,614	(1,428)	-
Appropriated fund balance	<u>(343,816)</u>	<u>-</u>	<u>343,816</u>	<u>-</u>
Total other financing sources (uses)	<u>424,562</u>	<u>817,019</u>	<u>392,457</u>	<u>(787,559)</u>
Net change in fund balance	<u>\$ -</u>	<u>566,812</u>	<u>\$ 566,812</u>	<u>(994,677)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>768,358</u>		<u>1,763,035</u>
End of year - June 30		<u>\$ 1,335,170</u>		<u>\$ 768,358</u>

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

## MAJOR GOVERNMENTAL FUND

## SPECIAL REVENUE FUND - BPART TAX FUND

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

## IN FUND BALANCE - BUDGET AND ACTUAL

## FOR THE YEAR ENDED JUNE 30, 2011

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Occupancy tax receipts	\$ 1,425,616	\$ 1,520,605	\$ 94,989	\$ 1,345,386
FEMA grants	-	-	-	569,000
Investment earnings	15,000	7,322	(7,678)	5,933
Miscellaneous	4,984	3,908	(1,076)	96,716
Total revenues	<u>1,445,600</u>	<u>1,531,835</u>	<u>86,235</u>	<u>2,017,035</u>
<b>Expenditures:</b>				
Salaries and employee benefits	174,150	163,033	11,117	99,224
Operating expenditures	752,430	514,802	237,628	539,427
Capital outlay	1,286,350	1,235,227	51,123	28,221
County's share of occupancy tax	246,716	246,715	1	231,539
Total expenditures	<u>2,459,646</u>	<u>2,159,777</u>	<u>299,869</u>	<u>898,411</u>
Revenues over (under) expenditures	<u>(1,014,046)</u>	<u>(627,942)</u>	<u>386,104</u>	<u>1,118,624</u>
<b>Other Financing Sources (Uses):</b>				
Transfer (to) from General Fund	(186,854)	-	186,854	-
Fund balance appropriated	1,200,900	-	(1,200,900)	-
Total other financing sources (uses)	<u>1,014,046</u>	<u>-</u>	<u>(1,014,046)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>(627,942)</u>	<u>\$ (627,942)</u>	<u>1,118,624</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>5,207,862</u>		<u>4,089,238</u>
End of year - June 30		<u>\$ 4,579,920</u>		<u>\$ 5,207,862</u>

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011

	<u>Special Revenue Fund</u>	
	<u>Canal Project Fund</u>	<u>Total</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 337,871	\$ 337,871
Accounts receivable, net	28,273	28,273
Due from other funds	55,676	55,676
Total assets	<u>\$ 421,820</u>	<u>\$ 421,820</u>
<b>Liabilities and Fund Balances:</b>		
<b>Liabilities:</b>		
Deferred revenues	\$ 28,273	\$ 28,273
Total liabilities	<u>28,273</u>	<u>28,273</u>
<b>Fund Balances:</b>		
Restricted:		
Restricted for beach renourishment	393,545	393,545
Total fund balances	<u>393,545</u>	<u>393,545</u>
Total liabilities and fund balances	<u>\$ 421,818</u>	<u>\$ 421,818</u>

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

### NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Canal Project Fund</u>	<u>Capital Reserve Fund</u>	<u>Total</u>
<b>Revenues:</b>			
Other taxes and licenses	\$ 240,221	\$ -	\$ 240,221
Interest on investments	1,473	229	1,702
Miscellaneous revenue	214	-	214
Total revenues	<u>241,908</u>	<u>229</u>	<u>242,137</u>
<b>Expenditures:</b>			
Current:			
General government	10,122	-	10,122
Beach renourishment	18,187	-	18,187
Total expenditures	<u>28,309</u>	<u>-</u>	<u>28,309</u>
Revenues over (under) expenditures	<u>213,599</u>	<u>229</u>	<u>213,828</u>
<b>Other Financing Sources (Uses):</b>			
Operating transfers in:			
From General Fund	28,877	-	28,877
Operating transfers out:			
To General Fund	<u>(565,475)</u>	<u>(245,614)</u>	<u>(811,089)</u>
Total other financing sources (uses)	<u>(536,598)</u>	<u>(245,614)</u>	<u>(782,212)</u>
Net change in fund balances	(322,999)	(245,385)	(568,384)
<b>Fund Balances:</b>			
Beginning of year - July 1	<u>716,544</u>	<u>245,385</u>	<u>961,929</u>
End of year - June 30	<u>\$ 393,545</u>	<u>\$ -</u>	<u>\$ 393,545</u>

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**CANAL PROJECT FUND - NONMAJOR GOVERNMENTAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
<b>Revenues:</b>					
Assessments HBH	\$ 211,370	\$ 268,143	\$ -	\$ 268,143	\$ 56,773
Assessments HHC	154,239	139,822	75,105	214,927	60,688
Assessments HAC	58,896	176,405	143,972	320,377	261,481
Assessments Blockade Runner	54,000	-	21,144	21,144	(32,856)
Interest	31,007	32,307	1,473	33,780	2,773
Miscellaneous revenue	116,480	188,712	214	188,926	72,446
Total revenues	<u>625,992</u>	<u>805,389</u>	<u>241,908</u>	<u>1,047,297</u>	<u>421,305</u>
<b>Expenditures:</b>					
<b>Town Hall/Police Department Project:</b>					
Construction	3,154,202	3,030,731	7,000	3,037,731	116,471
Engineering	158,957	156,942	3,122	160,064	(1,107)
Furnishings	182,457	178,286	-	178,286	4,171
Stormwater expense	30,000	29,299	-	29,299	701
Total Town Hall Project	<u>3,525,616</u>	<u>3,395,258</u>	<u>10,122</u>	<u>3,405,380</u>	<u>120,236</u>
<b>Holden Beach Harbor Project:</b>					
Administration	13,547	13,546	-	13,546	1
Professional services	159,992	159,633	6,350	165,983	(5,991)
Construction	278,878	261,909	-	261,909	16,969
Total Holden Beach Harbor Project	<u>452,417</u>	<u>435,088</u>	<u>6,350</u>	<u>441,438</u>	<u>10,979</u>
<b>Heritage Harbor Canal Project:</b>					
Administration	14,290	69	-	69	14,221
Professional services	36,980	118,798	1,998	120,796	(83,816)
Construction	275,678	255,363	-	255,363	20,315
Total Heritage Harbor Canal Project	<u>326,948</u>	<u>374,230</u>	<u>1,998</u>	<u>376,228</u>	<u>(49,280)</u>
<b>Harbor Acres Canal Project:</b>					
Administration	82	69	124	193	(111)
Professional services	38,930	38,899	9,621	48,520	(9,590)
Construction	47,388	31,666	-	31,666	15,722
Total Harbor Acres Canal Project	<u>86,400</u>	<u>70,634</u>	<u>9,745</u>	<u>80,379</u>	<u>6,021</u>

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**CANAL PROJECT FUND - NONMAJOR GOVERNMENTAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>	<u>Variance Over/Under</u>
		<u>Prior Years</u>	<u>Current Year</u>		
<b>Blockade Runner Project:</b>					
Administration	1,000	-	94	94	906
Professional services	18,000	15,800	-	15,800	2,200
Construction	89,000	40,915	-	40,915	48,085
Total Blockade Runner Project	<u>108,000</u>	<u>56,715</u>	<u>94</u>	<u>56,809</u>	<u>51,191</u>
Total expenditures	<u>4,499,381</u>	<u>4,331,925</u>	<u>28,309</u>	<u>4,360,234</u>	<u>139,147</u>
Revenues over (under) expenditures	<u>(3,873,389)</u>	<u>(3,526,536)</u>	<u>213,599</u>	<u>(3,312,937)</u>	<u>560,452</u>
<b>Other Financing Sources (Uses):</b>					
Transfer to General Fund	(645,475)	(80,000)	(565,475)	(645,475)	-
Transfer from General Fund	377,080	323,080	28,877	351,957	25,123
Appropriated fund balance	141,784	-	-	-	141,784
Proceeds from long-term debt	4,000,000	4,000,000	-	4,000,000	-
Total other financing sources (uses)	<u>3,873,389</u>	<u>4,243,080</u>	<u>(536,598)</u>	<u>3,706,482</u>	<u>166,907</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 716,544</u>	<u>\$ (322,999)</u>	<u>\$ 393,545</u>	<u>\$ 393,545</u>

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

## CAPITAL RESERVE FUND - NONMAJOR GOVERNMENTAL FUND

## SCHEDULE OF REVENUES, EXPENDITURES, AND

## CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

## FOR THE YEAR ENDED JUNE 30, 2011

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Investment earnings	\$ -	\$ 229	\$ 229	\$ 275
Total revenues	-	229	229	275
<b>Other Financing Sources (Uses):</b>				
Transfer to the General Fund	(245,614)	(245,614)	-	-
Appropriated fund balance	245,614	-	(245,614)	-
Total other financing sources (uses)	-	(245,614)	(245,614)	-
Net change in fund balance	\$ -	(245,385)	\$ (245,385)	275
<b>Fund Balance:</b>				
Beginning of year - July 1		245,385		245,110
End of year - June 30		\$ -		\$ 245,385

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**WATER AND SEWER FUND**

**SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (NON-GAAP)**

**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Operating Revenues:</b>				
Water and sewer charges	\$ 1,430,000	\$ 1,520,018	\$ 90,018	\$ 1,346,887
Sewer tap and connection fees	12,200	22,948	10,748	20,333
Impact fees	20,000	19,366	(634)	22,756
Share fees	37,000	24,507	(12,493)	37,609
Other operating revenues	121,250	144,894	23,644	150,818
Total operating revenues	<u>1,620,450</u>	<u>1,731,733</u>	<u>111,283</u>	<u>1,578,403</u>
<b>Non-Operating Revenues:</b>				
Interest earnings	10,000	2,242	(7,758)	1,086
Capital charges	1,602,000	1,670,701	68,701	1,514,390
Total non-operating revenues	<u>1,612,000</u>	<u>1,672,943</u>	<u>60,943</u>	<u>1,515,476</u>
Total revenues	<u>3,232,450</u>	<u>3,404,676</u>	<u>172,226</u>	<u>3,093,879</u>
<b>Expenditures:</b>				
<b>Administration:</b>				
Salaries and employee benefits	45,017	37,334	7,683	40,887
Operating expenses	39,400	33,087	6,313	31,297
Total	<u>84,417</u>	<u>70,421</u>	<u>13,996</u>	<u>72,184</u>
<b>Operations:</b>				
Salaries and employee benefits	182,800	184,090	(1,290)	158,485
Operating expenses	888,200	902,363	(14,163)	858,199
Capital outlay	89,001	69,751	19,250	52,199
Total	<u>1,160,001</u>	<u>1,156,204</u>	<u>3,797</u>	<u>1,068,883</u>
<b>Non-Operating Expense:</b>				
City capital charges	<u>1,248,443</u>	<u>1,248,443</u>	<u>-</u>	<u>1,252,547</u>
<b>Debt Service:</b>				
Principal retirement	598,242	598,242	-	588,080
Interest and fees	248,333	233,897	14,436	232,683
Total	<u>846,575</u>	<u>832,139</u>	<u>14,436</u>	<u>820,763</u>
Total expenditures	<u>3,339,436</u>	<u>3,307,207</u>	<u>32,229</u>	<u>3,214,377</u>

**TOWN OF HOLDEN BEACH, NORTH CAROLINA**

**WATER AND SEWER FUND**

**SCHEDULE OF REVENUES AND EXPENDITURES -**

**BUDGET AND ACTUAL (NON-GAAP)**

**FOR THE YEAR ENDED JUNE 30, 2011**

**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues over (under) expenditures	<u>(106,986)</u>	<u>97,469</u>	<u>204,455</u>	<u>(120,498)</u>
<b>Other Financing Sources (Uses):</b>				
Transfer (to) from General Fund	35,521	34,807	(714)	464,479
Transfer (to) from Water & Sewer Capital Reserve	(8,387)	-	8,387	-
Appropriated fund balance	<u>79,852</u>	<u>-</u>	<u>(79,852)</u>	<u>-</u>
Total other financing sources (uses)	<u>106,986</u>	<u>34,807</u>	<u>(72,179)</u>	<u>464,479</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>132,276</u>	<u>\$ 132,276</u>	<u>343,981</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>				
Revenues and other financing sources over Reconciling items:				
Principal retirement		598,242		588,080
Capital outlay		33,385		49,891
Depreciation		<u>(489,485)</u>		<u>(483,836)</u>
Change in net assets		<u>\$ 274,418</u>		<u>\$ 498,116</u>

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2011

Fiscal Year	Uncollected Balance July 1, 2010	Additions	Collections and Credits	Uncollected Balance June 30, 2011
2009-2010	\$ -	\$ 1,536,684	\$ 1,470,965	\$ 65,719
2008-2009	59,324		40,765	18,559
2007-2008	22,313	-	6,851	15,462
2006-2007	8,381	-	3,846	4,535
2005-2006	5,476	-	4,543	933
2004-2005	285	-	-	285
2003-2004	298	-	-	298
2002-2003	675	-	-	675
2001-2002	1,479	-	-	1,479
2000-2001	274	-	-	274
1999-2000	282	-	282	-
Total	\$ 98,787	\$ 1,536,684	\$ 1,527,252	\$ 108,219
Prior year motor vehicle taxes				1,368
Less: Allowance for uncollectible accounts				(38,500)
Ad valorem taxes receivable, net				\$ 71,087
<b>Reconciliation of Collections and Credits with Revenues:</b>				
Ad valorem taxes:				
General Fund				\$ 1,536,086
Reconciling items:				
Interest collected				(11,362)
Miscellaneous adjustments				2,528
Total collections and credits				\$ 1,527,252

## TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 2,212,808,383	0.00069	\$ 1,532,898	\$ 1,526,839	\$ 6,059
<b>Discoveries:</b>					
Current year taxes	5,560,801	0.0018	3,837	3,837	-
<b>Abatements</b>	(73,913)		(51)	-	(51)
Total property valuation	<u>\$ 2,218,295,271</u>				
<b>Net Levy</b>			1,536,684	1,530,676	6,008
Uncollected taxes at June 30, 2011			65,719	65,212	507
<b>Current Year's Taxes Collected</b>			<u>\$ 1,470,965</u>	<u>\$ 1,465,464</u>	<u>\$ 5,501</u>
<b>Current Levy Collection Percentage</b>			<u>95.72%</u>	<u>95.74%</u>	<u>91.56%</u>

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

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

## **Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Honorable Mayor and  
Board of Commissioners  
Town of Holden Beach, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holden Beach, North Carolina, as of and for the year ended June 30, 2011, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated September 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02 to be to be material weaknesses.

## Compliance and Other Matters

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

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

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
September 14, 2011

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### 1. Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
• Material weaknesses identified?	<u>  X  </u>	Yes	<u>      </u> No
• Significant deficiencies identified?	<u>      </u>	Yes	<u>  X  </u> No
Non-compliance material to financial statements noted?	<u>      </u>	Yes	<u>  X  </u> No

### 2. Findings Related to the Audit of the Basic Financial Statements

#### **Finding 2011-01:**

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

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

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

**Effect:** Errors in financial reporting could occur.

**Cause:** There are limited Town resources as it relates to the preparation of full accrual, full disclosure year-end financial statements.

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

**Name of Contact Person:** David Hewett

**Corrective Action:** Management concurs and based on its evaluation of the cost benefit has chosen to engage the external auditor to perform this function.

# TOWN OF HOLDEN BEACH, NORTH CAROLINA

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

### **Finding 2011-02:**

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

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

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

**Effect:** Adjustments not posted could cause misstatement of the account balances.

**Cause:** There are limited Town resources as it relates to the preparation of all necessary year-end adjustments for financial reporting purposes.

**Recommendation:** Management should examine the adjustments required as a result of our audit and assess the cost/benefit of improving the internal control system to prevent the adjustments in the future, given the units available financial and intellectual resources. Management should acknowledge inherent limitations in the internal control system caused by limited resources and modify their oversight function accordingly.

**Name of Contact Person:** David Hewett

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