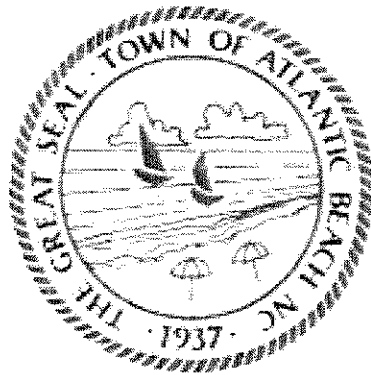


**Notes to Basic  
Financial Statements**



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## Town of Atlantic Beach, North Carolina

### Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2005

#### I. Summary of Significant Accounting Policies

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

##### A. Reporting Entity

The Town of Atlantic Beach is a municipal corporation that is governed by an elected mayor and a five-member council. Determination as to whether the Town is a component unit of another primary government, or whether it has component units that should be included in its own financial statements is determined using the concept of financial accountability as described in Governmental Accounting Standards Board Statement No. 14. The Town is not a component unit of a separate entity, nor does it have any 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. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

The Town reports the following nonmajor governmental funds:

**Special Revenue Funds.** Special Revenue Funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Town maintains one Special Revenue Fund, a capital reserve fund for the purpose of beach nourishment.

The Town reports the following major enterprise fund:

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

### C. Measurement Focus and Basis of Accounting

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

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*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, Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Atlantic Beach. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the Town's operations during the 2005 fiscal year.

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

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

#### D. Budgetary Data

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

## E. Assets, Liabilities, and Fund Equity

### 1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

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

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

### 2. Cash and Cash Equivalents

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

### 3. 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, 2004. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

#### 4. Inventory and Prepaid Items

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

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

#### 5. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2004, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

In July 2004, the Town established the following fixed assets capitalization thresholds in accordance with the requirements of the General Accounting Standards Board Statement 34 (GASB 34):

\$ 5,000	for equipment and supplies unit cost
\$ 20,000	for buildings
\$ 100,000	for infrastructure

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Improvements	10-25
Vehicles - motorized equipment	6
Equipment (non computer)	5-10
Computer equipment	3

## 6. Long-Term Obligations

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

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

## 7. Compensated Absences

The vacation policy of the Town provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

## 8. Net Assets/Fund Balances

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.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables, which have not been offset by deferred revenues. The amount reserved by State statute at June 30, 2005 is \$283,918.

Reserved for streets - Powell Bill - portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds. The amount reserved for streets – Powell Bill at June 30, 2005 is \$286,487.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2005 - 2006 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

**II. Stewardship, Compliance, and Accountability**

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

The Town's procedures for approving purchase orders is not in accordance with State law [G.S. 159-28]. State law requires that the finance officer approves purchase orders for expenditures appropriated in the budget. The Town's Public Works Department has not strictly adhered to this law. This issue has been separately reported in a letter to management dated November 1, 2005.

**III. Detail Notes on All Funds**

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one method. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest

bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2005, the Town's deposits had a carrying amount of \$3,798,411 and a bank balance of \$3,870,728. Of the bank balance, \$200,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2005, the Town's petty cash fund totaled \$400.

## 2. Investments

At June 30, 2005, the Town had \$1,156,616 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.

	Reported Value	Fair Value
NC Capital Management Trust:		
Cash Portfolio	1,156,616	1,156,616
Total Investments	<u>\$ 1,156,616</u>	<u>\$ 1,156,616</u>

### 3. Receivables

Receivables at the government-wide level at June 30, 2005, were as follows:

Franchise tax receivable	\$ 33,648
Telecommunication sales tax receivable	8,921
Local option sales tax receivable	136,139
Property taxes receivable	17,343
Street assessments receivable	706
Privilege licenses receivable	1,867
ABC tax receivable	42,589
Occupancy tax receivable	26,477
Services receivable	175,114
Total	<u>\$ 442,804</u>

### 4. Capital Assets

#### Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2005, was as follows:

	Beginning Balances	Reclass- ification	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 962,967	\$ -	\$ -	\$ -	\$ 962,967
Total capital assets not being depreciated	<u>962,967</u>	-	-	-	<u>962,967</u>
<b>Capital assets being depreciated:</b>					
Buildings & improvements	483,572	-	-	-	483,572
Equipment	311,257	-	25,209	-	336,466
Vehicles and motorized equipment	1,621,323	-	46,321	16,541	1,651,103
Total capital assets being depreciated	<u>2,416,152</u>	-	71,530	16,541	<u>2,471,141</u>
<b>Less accumulated depreciation for:</b>					
Buildings & improvements	332,371	-	4,903	-	337,274
Equipment	227,085	-	35,912	-	262,997
Vehicles and motorized equipment	882,198	-	175,626	15,534	1,042,290
Total accumulated depreciation	<u>1,441,654</u>	-	216,441	15,534	<u>1,642,561</u>
Total capital assets being depreciated, net	<u>974,498</u>				<u>828,580</u>
<b>Governmental activity capital assets, net</b>	<u>\$1,937,465</u>				<u>\$1,791,547</u>

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

General government	\$ 42,200
Public safety	174,241
Total depreciation expense	<u>\$ 216,441</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business type activities:</b>				
<b>Water Fund</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 934,400	\$ -	\$ -	\$ 934,400
Total capital assets not being depreciated	<u>934,400</u>	<u>-</u>	<u>-</u>	<u>934,400</u>
<b>Capital assets being depreciated:</b>				
Plant and distribution systems	6,315,033	-	-	6,315,033
Furniture and maintenance equipment	201,438	-	-	201,438
Vehicles	107,124	-	-	107,124
Total capital assets being depreciated	<u>6,623,595</u>	<u>-</u>	<u>-</u>	<u>6,623,595</u>
<b>Less accumulated depreciation for:</b>				
Substations, lines and related equipment	3,146,067	202,391	-	3,348,458
Furniture and maintenance equipment	131,268	15,562	-	146,830
Vehicles	83,437	9,041	-	92,478
Total accumulated depreciation	<u>3,360,772</u>	<u>226,994</u>	<u>-</u>	<u>3,587,766</u>
Total capital assets being depreciated, net	<u>3,262,823</u>			<u>3,035,829</u>
<b>Business type capital assets, net</b>	<u>\$4,197,223</u>			<u>\$3,970,229</u>

## B. Liabilities

### 1. Pension Plan Obligations

#### a. Local Governmental Employees' Retirement System

The Town provides a noncontributory defined contribution pension plan for all employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is a money purchase plan providing for funding by purchase of life insurance and qualified annuity contracts through a life insurance company. The retirement benefit provided is a monthly annuity for life. To be eligible, an employee must work a minimum of 1,000 hours. Contributions are made at a rate of 10.1% of covered employees' compensation. Employer contributions are 25% vested after one year, 70% after two years, and 100% vested after five years. The Town's contributions and interest forfeited by employees who leave employment before vesting occurs are used to reduce the Town's current period contribution requirement. The Town's contribution, net of forfeitures, to the pension plan for the year ended June 30, 2005 was \$68,253.

*Plan Description.* The Town contributes, on behalf of qualifying law enforcement employees, 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 engaged in law enforcement is 4.78% annual covered payroll. The contribution requirement of members and of the Town is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2005, 2004, and 2003 were \$216,332, \$280,135, and \$179,377, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The Town 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, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not year receiving benefits	-
Active plan members	18
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	18

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

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

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

3. *Contributions.*

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

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 6.5% per year. Both (a) and (b) included an inflation component of 5.0%. The assumptions did not include post-employment benefit increases.

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

Annual required contribution	\$	9,200
Interest on net pension obligation		1,256
Adjustment to annual required contribution		(972)
Annual pension cost		9,484
Contributions made		-
Increase (decrease) in net pension obligation		9,484
Net pension obligation beginning of year		17,329
Net pension obligation end of year	\$	26,813

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 8,995	25.44%	7,837
2004	10,636	10.76%	17,329
2005	9,484	0.00%	26,813

c. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*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, 2005 were \$30,411, all contributed by the Town.

d. Other Post-employment Benefits

At retirement or upon termination, all employees have the option to purchase basic medical insurance at the Town's group rate for an eighteen month period. The entire cost of this insurance is borne by the employees.

2. Deferred / Unearned Revenues

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

Taxes receivable	\$ 17,343
Street assessments receivable	706
Privilege licenses receivable	1,867
Prepaid taxes	1,160
	<u>\$ 21,076</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

4. Claims, Judgments and Contingent Liabilities

At June 30, 2005, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

## 5. Long-Term Obligations

### a. Installment Purchases:

In December 1994, the Town financed the improvement of water/sewer lines, sidewalks, and other types of infrastructure improvements for the Circle Revitalization Project, collateralized by the improvements financed. The note is due in annual installments through 2009 of \$50,000, plus interest currently at the rate of 4.59%. The balance outstanding at June 30, 2005 was \$250,000.

In November 2004, the Town entered into an installment purchase contract with Centura Bank for the purchase of a new ambulance. The note is due in annual installments through 2005 of \$36,283, with an interest rate of 2.32%. The balance outstanding at June 30, 2005 was \$35,278.

In November 2004, the Town entered into an installment purchase contract with BB&T for the purchase of a new fire truck. The note is due in annual installments beginning April 14, 2005 of \$52,322, with an interest rate of 3.51%. The balance outstanding at June 30, 2005 was \$397,864.

In May 2005, the Town entered into an installment purchase contract with BB&T for the purchase of a Sierra truck. The note is due in annual installments beginning May 17, 2006 of \$8,593, with an interest rate of 3.59%. The balance outstanding at June 30, 2005 was \$24,034.

Annual debt service requirements for notes payable are as follows:

Year Ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	331,365	24,418
2007	47,711	13,204
2008	49,392	11,523
2009	42,539	9,783
2010	44,032	8,290
2011-2015	192,137	35,222
Present value of the minimum lease payments	<u>\$ 707,176</u>	
Total interest payments		<u>\$ 102,440</u>

### b. General Obligation Indebtedness

The Town's general obligation bonds serviced by the proprietary funds were issued to finance the construction of facilities utilized in the operations of the water system. The bonds are being retired by the resources of the Water Fund are reported as long-term debt in the Water Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2005 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water Fund:

\$800,300 1988 Water Refunding Bonds due in annual installments ranging from \$69,308 to \$83,473 through December 1, 2007; plus interest, which is variable (approximately 4.50% at June 30, 2004), with a maximum rate of 8%.

\$ 200,145

\$450,000 Water Bonds issued January 1, 1991, due in annual installments of \$25,000 through June 1, 2009, plus interest at the rate of 7%.

100,000  
\$ 300,145

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2006	95,600	24,295
2007	102,700	16,872
2008	76,845	8,881
2009	25,000	1,775
Present value of the minimum lease payments	<u>\$ 300,145</u>	
Total interest payments		<u>\$ 51,823</u>

Changes in Long-Term Liabilities

	Balance			Balance	Current Portion
	June 30, 2004	Increases	Decreases		
Governmental activities:					
Installment purchases	\$ 804,857	\$ 24,034	\$ 121,715	\$ 707,176	\$ 331,365
Compensated absences	119,865	28,541	39,825	108,581	42,416
Governmental activity long-term liabilities	<u>\$ 924,722</u>	<u>\$ 52,575</u>	<u>\$ 161,540</u>	<u>\$ 815,757</u>	<u>\$ 373,781</u>
Business-type activities:					
General obligation bonds	\$ 389,345	\$ -	\$ 89,200	\$ 300,145	\$ 95,600
Compensated absences	17,697	3,153	3,511	17,339	3,511
Business-type activity long-term liabilities	<u>\$ 407,042</u>	<u>\$ 3,153</u>	<u>\$ 92,711</u>	<u>\$ 317,484</u>	<u>\$ 99,111</u>

Compensated absences typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2005, consist of the following:

<u>Descriptions</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 125,000	\$ 100,000
Capital Reserve Fund	100,000	-
Water Fund	-	125,000
	<u>\$ 225,000</u>	<u>\$ 225,000</u>

**IX. Summary Disclosure of Significant Contingencies**

Federal and State Assisted Programs

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

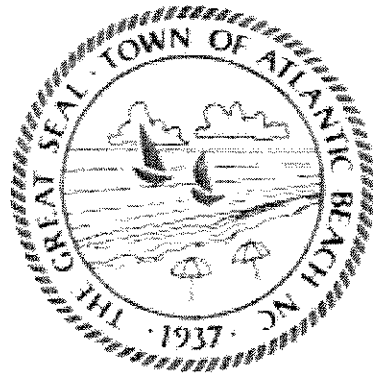
**X. Subsequent Events**

The Town sold land as a part of the Circle revitalization project on October 3, 2005. The contract price totaled \$1,810,000. Of that amount, \$258,765 was utilized to payoff the debt related to that property.

**Required Supplementary**  
**Financial Data**

This section contains additional information required by generally accepted accounting principals.

- Schedule of Funding in Progress for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance



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**Town of Atlantic Beach, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**Schedule of Funding in Progress**

Actual Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2000	-	49,854	49,854	0.00%	285,440	17.47%
12/31/2001	-	60,611	60,611	0.00%	319,160	18.99%
12/31/2002	-	70,980	70,980	0.00%	354,112	20.04%
12/31/2003	-	56,631	56,631	0.00%	382,658	14.80%
12/31/2004	-	86,733	86,733	0.00%	508,936	17.04%

\* Information presented for available years

**Town of Atlantic Beach, North Carolina**  
**Law Enforcement Officers' Special Separation Allowance**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2000	5,096	0.00%
2001	5,239	43.69%
2002	7,502	30.51%
2003	8,974	25.51%
2004	10,498	10.90%
2005	9,200	0.00%

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**Notes to the Required Schedules:**

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

Valuation date	12/31/2004
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	5.9 - 9.8%
Includes inflation at	3.75%
Cost-of-living adjustments	N/A

**\*Information presented for available years**