

Town of Atlantic Beach, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

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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.

Circle Infrastructure Fund. The Circle Infrastructure Fund, a special reserve fund, was established in Fiscal year 2005-2006 to account for the proceeds from the sale of Town property in the Circle Development District. This fund provides the opportunity for a clear accounting for the collection and use of these funds.

The Town reports the following non-major governmental fund:

Beach Nourishment Fund. The Beach Nourishment Fund, a special reserve fund, was established to account for distributions from the Carteret County Hotel Room Tax that is defined by N.C. General Statute to be used for beach nourishment related expenses.

The Town reports the following major enterprise fund:

Public Utilities Fund. The Public Utilities fund was originally established as the Water Fund to account for the management of the Town's water utility service. This fund was renamed to more accurately describe the expansion of Town enterprise services to include waste water management in fiscal year 2006-2007. While the Town's water services are fully operational, the waste water services are currently in the planning and engineering stages.

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

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are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise 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 water system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 2006 through February 2007 apply to the fiscal year ended June 30, 2007. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. In addition, as of January 1, 2006, State law implemented a staggered expiration date system for annually registered vehicles as part of the conversion into the staggered registration. Originally, annual registration expired December 31st each year with taxes due by May 1st of the following year. To transition from the annual registration into the staggered, the initial 2006 registration renewals

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will vary from 7 to 18 months after December 31, 2005. Once these initial renewals have expired, all vehicles that were previously annually registered will be in the staggered system.

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 amendments to the original budget were approved. Additionally, several transfers both within funds and to or from other funds were necessary and approved. 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

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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, 2006. 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.

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

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

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

During the fiscal year, the Town purchased lots 1, 2, and 3 of Block 6, Asbury Beach, Atlantic Beach, Carteret County. This property was purchased for a public beach access. The fair value of the 3 lots was appraised at \$1,050,000. The town paid \$351,000 and George and Carol Wainwright, Aaron and Glenda Baker and Harry and Patrice Rippey donated the other two thirds of the property. This donation resulted in a special item revenue amount of \$698,997.

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.

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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 provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town 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 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

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

Fund Balances

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.

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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, 2007 is \$426,499.

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, 2007 is \$266,799.

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2007 - 2008 budget ordinance. The amount designated for 2007 – 2008 is \$445,230.

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

- a. The Town's procedures for budgeting is not in accordance with [G.S. 159-8(a)]. State law requires all moneys received and expended by a local government or public authority to be included in the budget ordinance. The finance officer shall establish procedures to assure compliance with this statute.
- b. The Town's procedures for approving purchase orders is not in accordance with State law [G.S. 159-28 (a)]. State law requires that the finance officer approves purchase orders for expenditures appropriated in the budget. The finance officer shall establish procedures to assure compliance with these subsections.
- c. The Town's procedures for adopting Project Ordinances are not in accordance with G.S. [159-13.2]. State law requires projects financed in whole or in part by revenues received from the federal and/or State government for operating or capital purposes is a Grant Project and should adopt a Project Ordinance prior to beginning the project. The Town will adopt a Project Ordinance for future Grant Projects.

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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 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 City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2007, the Town's deposits had a carrying amount of \$3,964,790 and a bank balance of \$4,027,322. 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, 2007, the Town's petty cash fund totaled \$400.

2. Investments

At June 30, 2007, the Town had \$2,044,950 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	2,044,950	2,044,950
Total Investments	\$ 2,044,950	\$ 2,044,950

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3. Receivables

Receivables at the government-wide level at June 30, 2007, were as follows:

ABC tax receivable	\$ 60,188
Telecommunication sales tax receivable	11,236
Franchise tax receivable	37,964
Local option sales tax receivable	151,762
Video programming	30,809
Property taxes receivable	15,485
Privilege licenses receivable	1,700
Street assessments receivable	706
Dredging grant receivable	74,557
Services receivable	185,725
Total	<u>\$ 570,132</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2007, was as follows:

	Beginning Balances	Reclass- ification	Increases	Decreases	Ending Balances
Governmental activities:					
Capital assets not being depreciated:					
Land	\$4,172,967	\$ -	\$1,050,000	\$ -	\$5,222,967
Construction in progress	102,844	(102,844)	-	-	-
Total capital assets not being depreciated	<u>4,275,811</u>	<u>(102,844)</u>	<u>1,050,000</u>	<u>-</u>	<u>5,222,967</u>
Capital assets being depreciated:					
Buildings & improvements	514,528	-	-	-	514,528
Infrastructure	-	102,844	201,037	-	303,881
Equipment	403,960	15,930	34,333	-	454,223
Vehicles and motorized equipment	1,835,258	(22,338)	169,085	-	1,982,005
Total capital assets being depreciated	<u>2,753,746</u>	<u>96,436</u>	<u>404,455</u>	<u>-</u>	<u>3,254,637</u>
Less accumulated depreciation for:					
Buildings & improvements	342,281	-	6,141	-	348,422
Infrastructure	-	-	11,818	-	11,818
Equipment	287,221	-	37,437	-	324,658
Vehicles and motorized equipment	1,206,452	(6,408)	188,050	-	1,388,094
Total accumulated depreciation	<u>1,835,954</u>	<u>(6,408)</u>	<u>243,446</u>	<u>-</u>	<u>2,072,992</u>
Total capital assets being depreciated, net	<u>917,792</u>				<u>1,181,645</u>
Governmental activity capital assets, net	<u>\$5,193,603</u>				<u>\$6,404,612</u>

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

General government	\$ 48,033
Public safety	195,413
Total depreciation expense	\$ 243,446

	Beginning Balances	Reclassi- fication	Increases	Decreases	Ending Balances
Business type activities:					
Water Fund					
Capital assets not being depreciated:					
Land	\$ 934,400	\$ -	\$ -	\$ -	\$ 934,400
Total capital assets not being depreciated	934,400	-	-	-	934,400
Capital assets being depreciated:					
Plant and distribution systems	6,325,217	-	-	-	6,325,217
Furniture and maintenance equipment	199,740	-	22,965	-	222,705
Vehicles	107,124	(15,930)	12,751	-	103,945
Total capital assets being depreciated	6,632,081	(15,930)	35,716	-	6,651,867
Less accumulated depreciation for:					
Substations, lines and related equipment	3,561,799	-	187,258	-	3,749,057
Furniture and maintenance equipment	136,224	-	14,737	-	150,961
Vehicles	97,706	(15,930)	4,882	-	86,658
Total accumulated depreciation	3,795,729	(15,930)	206,877	-	3,986,676
Total capital assets being depreciated, net	2,836,352				2,665,191
Business type capital assets, net	\$3,770,752				\$3,599,591

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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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 is 4.8% 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, 2007, 2006, and 2005 were \$250,954, \$242,670, and \$216,332, 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, 2006 the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not year receiving benefits	-
Active plan members	20
	20
	20

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.

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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, 2005 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	\$	14,744
Interest on net pension obligation		2,917
Adjustment to annual required contribution		(2,370)
Annual pension cost		15,291
Contributions made		-
Increase (decrease) in net pension obligation		15,291
Net pension obligation beginning of year		40,231
Net pension obligation end of year	\$	55,522

For Year Ended June 30	3 Year Trend Information		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 9,484	0.00%	26,813
2006	13,418	0.00%	40,231
2007	15,291	0.00%	55,522

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.

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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, 2007 were \$28,722, all contributed by the Town.

d. Other Post employment Benefits

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 11.8% 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, 2007 was \$70,745.

2. Other Employee Benefit

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.

3. Deferred / Unearned Revenues

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

Reserve street assessment	706
Reserve privilege license	1,699
Reserve for Taxes Receivable	15,485
Deferred taxes	218
	<u>\$ 18,108</u>

4. 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

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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.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2007, 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.

6. Long-Term Obligations

a. Installment Purchases:

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, 2007 was \$319,804.

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, 2007 was \$8,296.

In March 2006, the Town entered into an installment purchase contract with BB&T for the purchase of property located on 915 W. Ft. Macon Rd, Atlantic Beach. Payments are broken down into two separate payment plans. One portion is to make payments annually in arrears in variable amounts with a fixed principal component of \$197,333 a portion of each payment is paid as and represents payment of interest at an annual rate of 3.9%. Payments are due beginning on March 15, 2007, and annually thereafter, with a final payment of all outstanding principal and accrued and unpaid interest due on March 15, 2021. The other portion of installments payments reflect the repayment of the loan proceeds and included a designated interest component

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corresponding to an annual interest rate of 6.41%. The town does not expect to prepay any of the Obligations prior to the scheduled payment dates. The combined balance outstanding at June 30, 2007 was \$3,733,334.

In April 2006, the Town entered into an installment purchase contract with BB&T for the purchase of a Ford Escape vehicle. Payments are annual in advance of the amount of \$3,834.80. A portion of each payment is paid as and represents payment of interest at an annual interest rate of 3.96%. Payments are due beginning on April 12, 2006, an annually thereafter, with a final payment of all outstanding principal and accrued and unpaid interest due on April 12, 2009. The balance outstanding at June 30, 2007 was \$7,237.

Annual debt service payments of all installment notes as of June 30, 2007, including \$1,323,979 of interest, are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2008	319,607	182,050
2009	312,894	168,009
2010	310,698	154,210
2011	312,244	140,504
2012	313,843	126,744
2013 - 2017	1,432,715	430,862
2018 - 2022	1,066,670	121,600
Total	\$ 4,068,671	\$ 1,323,979

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.

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For the Fiscal Year Ended June 30, 2007

Bonds payable at June 30, 2007 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water Fund:

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2008	76,845	8,881
2009	25,000	1,775
Total	\$ 101,845	\$ 10,656

Changes in Long-Term Liabilities

	Balance June 30, 2006	Increases	Decreases	Balance June 30, 2007	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 4,386,461	\$ -	\$ 317,790	\$ 4,068,671	\$ 319,607
Compensated absences	127,787	7,716	-	135,503	8,382
Net pension obligation	40,231	15,291	-	55,522	-
Governmental activity long-term liabilities	\$ 4,554,201	\$ 23,007	\$ 317,790	\$ 4,259,696	\$ 327,989
Business-type activities:					
General obligation bonds	\$ 204,545	\$ -	\$ 102,700	\$ 101,845	\$ 76,845
Compensated absences	8,803	4,601	-	13,404	3,444
Business-type activity long-term liabilities	\$ 213,348	\$ 4,601	\$ 102,700	\$ 115,249	\$ 80,289

Compensated absences typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2007, consist of the following:

Descriptions	Transfers In	Transfers Out
General Fund	\$ 856,789	\$ -
Beach Nourishment Fund		87,751
Circle Infrastructure Fund	-	424,705
Public Utilities Fund	-	344,333
	\$ 856,789	\$ 856,789

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

During 2007, the Town made a one-time transfer from the Beach Nourishment Fund of \$87,751 to the General Fund as per the terms of a matching grant from North Carolina Department of Environment and Natural Resources. The Town also made a transfer from the Circle Infrastructure Fund to the General Fund of \$424,705, which is comprised of a loan to the General Fund to fund the Sewer portion of the Sewer and Storm-water project.

D. Prior Period Adjustment

During the fiscal year ended June 30, 2007, the Town determined that certain payroll expenses that were subject to accrual in the General Fund as of June 30, 2006, on a modified accrual basis of accounting, had been omitted. Therefore, an adjustment to the beginning fund balance has been recorded to account for these accruals, the net effect of which decreased the beginning fund balance by \$99,254.

IV. Summary Disclosure of Significant Contingencies

Federal and State Assistance 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.