

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, 2011

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.

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 non-major 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.

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The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental fund:

Capital Project Special Revenue Fund. This 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 is used to account for the management of the Town's water and storm 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 proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town 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.

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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, 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 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.

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D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects Special Revenue Fund. 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 project 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.

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 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.

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. Restricted Assets

The unexpended Powell Bill revenue is classified as restricted assets in governmental funds because the use is completely restricted by State law. The balance at June 30, 2011 was \$167,736. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2009. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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 General Fund consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

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 consumed 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.

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; and computer software, \$5,000. 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.

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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 Software	5
Computer equipment	3

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In fund financial statements, 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.

8. Compensated Absences

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

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9. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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 Statue [G.S. 159-8(a)].

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

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

Assigned Fund Balance – portion of fund balance that Town of Atlantic Beach intends to use for specific purposes.

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

II. Stewardship, Compliance, and Accountability

No issues relating to stewardship, compliance and accountability for the Town.

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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 the Pooling Method. The Pooling Method is a collateral pool; all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits 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 \$7,822,017 and a bank balance of \$7,860,694. Of the bank balance, \$1,000,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$400.

2. Investments

At June 30, 2011, the Town had \$466 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.

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3. Receivables

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

Fund	June 30, 2011
General Fund:	
ABC tax receivable	\$ 44,256
Telecommunication sales tax receivable	14,013
Franchise tax receivable	43,017
Local option sales tax receivable	146,669
Video programming	35,002
Property taxes receivable	17,785
Services receivable	78,130
Misellaneous receivables	30,907
Total	409,779
Public Utilities Fund:	
Services receivable	178,580
Total	\$ 588,359

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,222,967	\$ -	\$ -	\$ 5,222,967
Total capital assets not being depreciated	5,222,967	-	-	5,222,967
Capital assets being depreciated:				
Buildings & improvements	537,867	-	-	537,867
Infrastructure	303,881	262,948	-	566,829
Equipment	444,941	57,174	21,089	481,026
Vehicles and motorized equipment	2,211,315	-	-	2,211,315
Total capital assets being depreciated	3,498,004	320,122	21,089	3,797,037
Less accumulated depreciation for:				
Buildings & improvements	367,286	8,741	-	376,027
Infrastructure	72,595	20,441	-	93,036
Equipment	370,971	25,303	13,652	382,622
Vehicles and motorized equipment	1,743,085	156,304	-	1,899,389
Total accumulated depreciation	2,553,937	210,789	13,652	2,751,074
Total capital assets being depreciated, net	944,067			1,045,963
Governmental activity capital assets, net	\$ 6,167,034			\$ 6,268,930

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

General government	\$	42,210
Public safety		165,798
Transportation		512
Environmental Protection		182
Parks and recreation		2,087
Total depreciation expense	\$	210,789

	Beginning Balances	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	6,353,192	148,510	-	6,501,702
Furniture and maintenance equipment	332,823	5,811	-	338,634
Vehicles	101,560	-	-	101,560
Total capital assets being depreciated	6,787,575	154,321	-	6,941,896
Less accumulated depreciation for:				
Plant and distribution systems	4,304,027	187,518	-	4,491,545
Furniture and maintenance equipment	233,265	24,783	-	258,048
Vehicles	53,548	12,770	-	66,318
Total accumulated depreciation	4,590,840	225,071	-	4,815,911
Total capital assets being depreciated, net	2,196,735			2,125,985
Business type capital assets, net	\$ 3,131,135			\$ 3,060,385

B. Liabilities

1. Pension Plan Obligations

a. 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.

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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 12.78% and 12.64% respectively, of 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, 2011, 2010, and 2009 were \$301,130, \$261,227, and \$258,521, 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, 2010 the Separation Allowance’s membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>17</u>
	<u><u>19</u></u>

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, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5 % investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.5% to 12.3%. Both (a) and (b) included an inflation component of 3.75%. 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	\$	25,268
Interest on net pension obligation		5,356
Adjustment to annual required contribution		<u>(5,735)</u>
Annual pension cost		24,889
Contributions made		<u>8,808</u>
Increase (decrease) in net pension obligation		16,081
Net pension obligation beginning of year		<u>107,121</u>
Net pension obligation end of year		<u><u>\$ 123,202</u></u>

3 Year Trend Information			
For Year Ended	Annual Pension Cost	Percentage of	Net Pension
June 30	(APC)	APC Contributed	Obligation
2009	\$ 18,870	0.00%	90,920
2010	21,519	24.71%	107,121
2011	24,889	35.39%	123,202

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The annual required contribution (ARC) for the fiscal year ended June 30, 2011 is calculated as of December 31, 2010 using the following information:

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.5 - 7.85%
Includes inflation at	3.00%
Cost-of-living adjustments	N/A

4. Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$156,007. The covered payroll (annual payroll of active employees covered by the plan) was \$676,513, and the ratio of the UAAL to the covered payroll was 23.06 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. The 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 \$37,133, all contributed by the Town.

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d. Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to all full-time employees of the Town. Authority to establish and amend benefit provisions is assigned to the Town Council.

Funding Policy. The adopted plan requires the Town to contribute each pay period an amount equal to five percent (5%) of each non-law enforcement employee's salary. The Town's contributions for each employee (and interest allocated to the employee's account) are fully vested immediately. All covered employees may make voluntary contributions to the plan. Contributions from the Town for the year ended June 30, 2011 were \$80,895 for non-law enforcement employees.

e. Other Postemployment Benefits

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (HBP). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of credible service with the Town, have not reached age 65 and are not eligible to receive Medicare benefits. Prior to July 1, 2009, employees did not receive this benefit. The Town pays the full cost of coverage for these benefits through private insurers. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Funding Policy. By Town Resolution, the Town pays the full cost of coverage for the healthcare benefits to qualified retirees. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2011, the Town's total contributions were \$14,691.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer.* (ARC)

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The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Annual required contribution	\$ 59,124
Interest on net OPEB obligation	2,025
Adjustment to annual required contribution	<u>(1,747)</u>
Annual OPEB cost (expense)	59,402
Contributions made	<u>14,691</u>
Increase (decrease) in net OPEB obligation	44,711
Net OPEB obligation beginning of year	<u>50,637</u>
Net OPEB obligation end of year	<u><u>\$ 95,348</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011 were as follows:

For Year Ended	Percentage of Annual		
June 30	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 59,124	14.35%	\$ 50,637
2011	\$ 59,402	24.73%	\$ 95,348

Funded Status and Funding Progress. As of June 30, 2010, the actuarial accrued liability for benefits was \$446,116, all of which was unfunded. The covered payroll was \$2,378,493, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 18.8 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial

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statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 12.00 percent initially, reduced to an ultimate rate of 6.00 percent after six years, was used.

Health insurance premiums – 2009 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3.8 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in The 2007 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds for an intermediate growth scenario.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4.00 percent was used. In addition, a simplified version of the entry age actuarial

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cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011, was 29 years.

2. Other Employment Benefit

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

The Town also provides an additional death benefit through a Group Term Life Insurance program, which is provided on a non-contributory basis to all members of the retirement system and 30 days of employment. The benefit pays the designated beneficiary an amount equal to the employee's annual salary, but the benefit may not exceed \$200,000. Under the IRS regulations, the value of employer-paid Group Term Life Insurance coverage in excess of \$50,000 is considered taxable to the employee as a fringe benefit.

3. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Reserve for Taxes Receivable	\$ 17,785	\$ -
Deferred taxes	-	22,074
	\$ 17,785	\$ 22,074

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 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 \$2 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability,

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auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area of the State that has been mapped and designated as A, B, C, and X zones by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town also is eligible to and has purchased commercial flood insurance to cover its buildings and structures in the A, B, C, and X zones in the event of flood damage.

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, 2011, the Town has no pending claims or judgments.

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, 2011 was \$146,558.

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 installment payments reflects the repayment of the loan proceeds and included a designated interest component 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, 2011 was \$2,666,670.

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In April 2008, the Town entered into an installment purchase contract with BB&T for the purchase of a Rescue Truck. The note is due in annual installments beginning April 15, 2009 of \$41,585, with an interest rate of 3.14%. The balance outstanding at June 30, 2011 was \$257,720.

Annual debt service payments of all installment notes as of June 30, 2011, including \$558,576 of interest, are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2012	347,336	106,837
2013	350,044	94,769
2014	352,844	82,610
2015	303,414	70,357
2016	304,568	59,844
2017-2021	1,412,742	144,159
Total	<u>\$ 3,070,948</u>	<u>\$ 558,576</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 Public Utility Fund are reported as long-term debt in the Public Utilities 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, 2011 are comprised of the following individual issues:

Changes in Long-Term Liabilities

	Balance			Current	
	6/30/2010	Increases	Decreases	Balance 6/30/2011	Portion of Balance
Governmental activities:					
Installment purchases	\$ 3,415,665	\$ -	\$ 344,717	\$ 3,070,948	\$ 347,336
Compensated absences	151,708	39,856	34,105	157,459	33,590
Other post employment benefits	47,145	59,402	14,691	91,856	-
Net pension obligation	107,121	16,081	-	123,202	-
Governmental activity long-term liabilities	<u>\$ 3,721,639</u>	<u>\$ 115,339</u>	<u>\$ 393,513</u>	<u>\$ 3,443,465</u>	<u>\$ 380,926</u>
Business-type activities:					
Compensated absences	\$ 14,978	\$ 5,241	\$ 3,081	\$ 17,138	\$ 3,081
Other post employment benefits	3,492	-	-	3,492	-
Business-type activity long-term liabilities	<u>\$ 18,470</u>	<u>\$ 5,241</u>	<u>\$ 3,081</u>	<u>\$ 20,630</u>	<u>\$ 3,081</u>

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At June 30, 2011, the Town of Atlantic Beach had a legal debt margin of \$180,458,780.

Compensated absences typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

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

Descriptions	Transfers In	Transfers Out
General Fund	\$ 376,413	\$ -
Public Utilities Fund	-	376,413
	\$ 376,413	\$ 376,413

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.

The transfer from the Public Utility Fund to the General Fund is for reimbursement of shared personnel costs (\$250,942) and debt service payment for the Town-owned property purchased for future use by both funds (\$125,471).

D. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 5,521,234
Less:	
Stabilization by State Statute	391,994
Streets - Powell Bill	167,736
Remaining Fund Balance	\$ 4,961,504

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.