

TOWN OF HOLDEN BEACH NORTH CAROLINA

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2008



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

**TOWN OF HOLDEN BEACH
NORTH CAROLINA**

ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 2008

TOWN OF HOLDEN BEACH, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2008

Mayor: J. Alan Holden

Commissioners: Sandy Miller, Mayor Pro Tem
Ray Lehr
Don Glander
Ken Kyser
Gary Staley

Town Manager/Finance Officer: David Hewett

Clerk: Heather Finnell

**TOWN OF HOLDEN BEACH, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2008**

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**TOWN OF HOLDEN BEACH, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holden Beach, North Carolina as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Holden Beach, North Carolina's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Holden Beach, North Carolina as of June 30, 2008, the respective changes in financial position and cash flows, where appropriate, thereof, and the respective budgetary comparison for the General Fund and the BPART Tax Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2009 on our consideration of the Town of Holden Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Holden Beach, North Carolina taken as a whole. The individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
January 9, 2009

Management's Discussion and Analysis

As management of the Town of Holden Beach, we offer readers of the Town of Holden Beach's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the basic financial statements and accompanying notes to the financial statements, which follow this narrative.

Financial Highlights

-The assets of the Town of Holden Beach exceeded its liabilities at the close of the fiscal year by \$24,704,864.

-The Town's total net assets decreased by \$277,377 with approximately 57 percent of the decrease coming from business-type activities.

-As of the close of the current fiscal year, the Town of Holden Beach governmental funds reported combined ending fund balances of \$8,164,033 an increase of \$1,986,125 in comparison with the prior year. Approximately 93% of this total amount, or \$7,631,086, is available for spending at the government's discretion.

-At the end of the current fiscal year, unreserved fund balance for the General Fund was \$956,936, or approximately 28 percent of total general fund expenditures for the fiscal year.

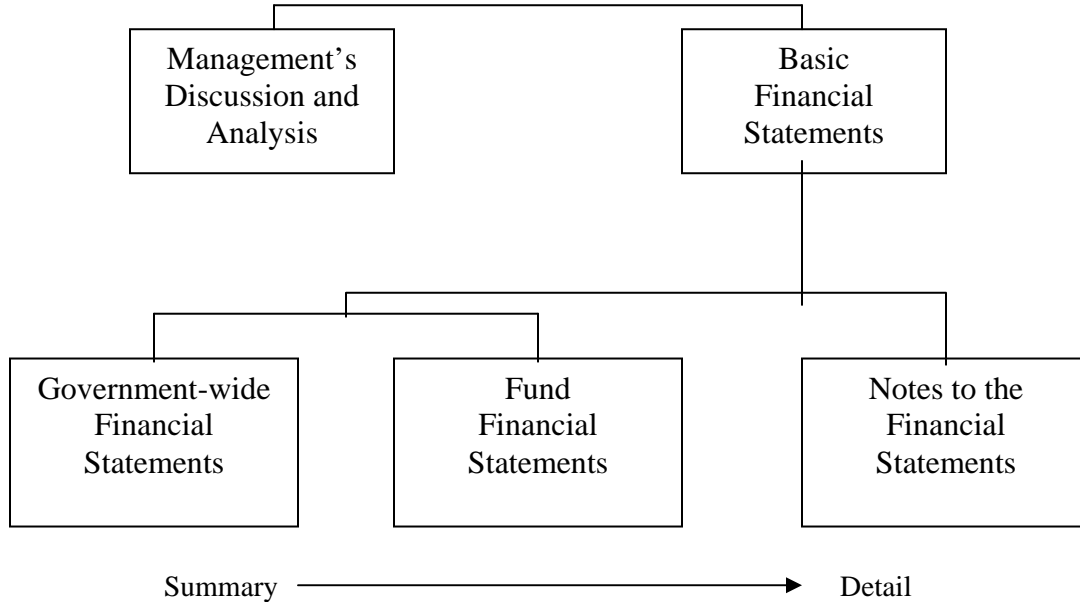
-The Town of Holden Beach's total debt increased by \$3,046,623 during the current fiscal year. This was due to debt payments of \$985,667 in the Water & Sewer Fund and the issuing of new debt of \$4,000,000 for the Holden Beach Town Hall Project in the General Fund.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town of Holden Beach's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include General Government, Public Safety, Transportation, Environmental Protection, and Beach Renourishment. The business-type activities of the Town of Holden Beach include Water & Sewer.

The government-wide financial statements can be found on Exhibits A and B of this report.

In accordance with the Governmental Accounting Standards Board criteria for inclusion in the reporting entity, the Town of Holden Beach has no component units that must be included in this report.

Fund Financials Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

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

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

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

Proprietary Funds. The Town of Holden Beach maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its Water and Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer fund. The Water and Sewer fund is considered a major fund of the Town.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the end of the current fiscal year, the Town of Holden Beach was able to report positive balances in all three categories of net assets, both for the Town as a whole, as well as for its separate governmental and business-type activities. In the case of the Town, assets exceeded liabilities by \$24,704,864 at the close of the most recent fiscal year. The Town's net assets decreased by \$277,377 for the fiscal year ended June 30, 2008.

A portion of the Town's net assets (66 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Town of Holden Beach's Net Assets
Figure 2

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|------------------------------------|---------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets: | | | | | | |
| Current and other assets | \$ 8,640,967 | \$ 6,389,386 | \$ 3,532,244 | \$ 4,233,801 | \$ 12,173,211 | \$ 10,623,187 |
| Capital assets | 3,821,837 | 1,935,661 | 20,265,429 | 20,682,267 | 24,087,266 | 22,617,928 |
| Total assets | <u>12,462,804</u> | <u>8,325,047</u> | <u>23,797,673</u> | <u>24,916,068</u> | <u>36,260,477</u> | <u>33,241,115</u> |
| Liabilities: | | | | | | |
| Long-term liabilities | 3,830,527 | 84,514 | 6,290,990 | 7,241,561 | 10,121,517 | 7,326,075 |
| Other liabilities | 760,260 | 248,688 | 673,836 | 684,111 | 1,434,096 | 932,799 |
| Total liabilities | <u>4,590,787</u> | <u>333,202</u> | <u>6,964,826</u> | <u>7,925,672</u> | <u>11,555,613</u> | <u>8,258,874</u> |
| Net Assets: | | | | | | |
| Invested in capital assets | 2,823,051 | 1,825,630 | 13,455,766 | 12,923,802 | 16,278,817 | 14,749,432 |
| Restricted | 58,335 | 8,215 | - | - | 58,335 | 8,215 |
| Unrestricted | 4,990,631 | 6,158,000 | 3,377,081 | 4,066,594 | 8,367,712 | 10,224,594 |
| Total net assets | <u>\$ 7,872,017</u> | <u>\$ 7,991,845</u> | <u>\$ 16,832,847</u> | <u>\$ 16,990,396</u> | <u>\$ 24,704,864</u> | <u>\$ 24,982,241</u> |

The largest portion of net assets reflects the Town's investment in capital assets which is \$16,278,817 or 66% of total net assets. An additional \$58,335 (less than 1%) of the Town's net assets represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets \$8,367,712 (33%) may be used to meet the government's ongoing obligation to citizens and creditors.

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

Governmental Activities. Governmental activities decreased the Town's net assets by \$119,828, accounting for approximately 43 percent of the total \$277,377 decrease in the net assets of the Town.

Town of Holden Beach's Changes in Net Assets
Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | \$ 402,529 | \$ 475,683 | \$ 1,996,482 | \$ 4,139,575 | \$ 2,399,011 | \$ 4,615,258 |
| Operating grants and contributions | 125,290 | 28,522 | - | 400 | 125,290 | 28,922 |
| Capital grants and contributions | 48,965 | 43,330 | 1,572,669 | - | 1,621,634 | 43,330 |
| General Revenues: | | | | | | |
| Property taxes | 1,557,869 | 1,338,584 | - | - | 1,557,869 | 1,338,584 |
| Other taxes | 1,723,782 | 1,729,800 | - | - | 1,723,782 | 1,729,800 |
| Other | 242,504 | 271,444 | 62,710 | 68,551 | 305,214 | 339,995 |
| Total revenues | <u>4,100,939</u> | <u>3,887,363</u> | <u>3,631,861</u> | <u>4,208,526</u> | <u>7,732,800</u> | <u>8,095,889</u> |
| Expenses: | | | | | | |
| General government | 1,149,993 | 968,457 | - | - | 1,149,993 | 968,457 |
| Public safety | 968,952 | 989,391 | - | - | 968,952 | 989,391 |
| Transportation | 307,957 | 359,878 | - | - | 307,957 | 359,878 |
| Environmental protection | 104,150 | 80,305 | - | - | 104,150 | 80,305 |
| Beach renourishment | 2,183,553 | 638,127 | - | - | 2,183,553 | 638,127 |
| Interest on long-term debt | 6,162 | (9,354) | - | - | 6,162 | (9,354) |
| Water and sewer | - | - | 3,289,410 | 2,895,691 | 3,289,410 | 2,895,691 |
| Total expenses | <u>4,720,767</u> | <u>3,026,804</u> | <u>3,289,410</u> | <u>2,895,691</u> | <u>8,010,177</u> | <u>5,922,495</u> |
| Increase in net assets before transfers | (619,828) | 860,559 | 342,451 | 1,312,835 | (277,377) | 2,173,394 |
| Transfers | 500,000 | 13,775 | (500,000) | (13,775) | - | - |
| Increase in net assets | (119,828) | 874,334 | (157,549) | 1,299,060 | (277,377) | 2,173,394 |
| Net assets, July 1 | <u>7,991,845</u> | <u>7,117,511</u> | <u>16,990,396</u> | <u>15,691,336</u> | <u>24,982,241</u> | <u>22,808,847</u> |
| Net assets, June 30 | <u>\$7,872,017</u> | <u>\$ 7,991,845</u> | <u>\$16,832,847</u> | <u>\$16,990,396</u> | <u>\$ 24,704,864</u> | <u>\$ 24,982,241</u> |

Governmental Activities. Governmental activities decreased the Town's net assets by \$119,828. Key elements of this decrease are as follows:

- Capital spending on projects including: Town Hall, Emergency Operations Center and beach renourishment project.

Business-Type Activities. Business-type activities decreased the Town's net assets by \$157,549. Key elements of this decrease are as follows:

- Decrease in the current year is due primarily to a transfer made to the General Fund to pay for half of the emergency operations center and an additional payment made to pay down long-term debt.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$956,936 while total fund balance reached \$1,136,194. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 28 percent of total General Fund expenditures. Total fund balance represents approximately 33 percent of that same amount.

At June 30, 2008, the governmental funds of the Town of Holden Beach reported a combined fund balance of \$8,164,033, an increase of approximately 32 percent over last year. Included in this change in fund balance is a decrease in the General Fund of \$547,628, a decrease in the Beach Preservation Access Recreation and Tourism Fund (BPART) of \$594,175, and an increase in the Capital Projects Fund of \$3,120,757.

General Fund Budgetary Highlights

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

The budgetary amendments for the fiscal year 2007-2008 falls in the category of number three. The amendments totaled \$993,500 in the General Fund, of which a majority of these funds were for projects.

Proprietary Funds. The Town of Holden Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,377,081. The total change in net assets was (\$157,549). Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Holden Beach's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounts to \$24,087,266 (net of accumulated depreciation) which is an increase of \$1,469,338. The investment in capital assets includes land, buildings, improvements, machinery and equipment, and vehicles.

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

- Construction in progress for Town Hall/Police Department Building
- Construction in progress for the Emergency Operation Center
- Construction of the Holden Beach Pavilion

Town of Holden Beach's Capital Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|------------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|----------------------|----------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Land | \$ 909,947 | \$ 909,947 | \$ 140,296 | \$ 140,296 | \$ 1,050,243 | \$ 1,050,243 |
| Buildings and distribution systems | 663,019 | 663,019 | 21,787,366 | 21,787,366 | 22,450,385 | 22,450,385 |
| Improvements & infrastructure | 367,949 | 176,499 | 184,026 | 184,026 | 551,975 | 360,525 |
| Machinery & equipment | 293,857 | 256,235 | 160,348 | 155,348 | 454,205 | 411,583 |
| Vehicles | 394,464 | 350,776 | 101,616 | 102,029 | 496,080 | 452,805 |
| Construction in progress | 1,682,928 | - | - | - | 1,682,928 | - |
| Accumulated depreciation | <u>(490,327)</u> | <u>(420,815)</u> | <u>(2,108,223)</u> | <u>(1,686,798)</u> | <u>(2,598,550)</u> | <u>(2,107,613)</u> |
| Total | <u>\$ 3,821,837</u> | <u>\$ 1,935,661</u> | <u>\$ 20,265,429</u> | <u>\$ 20,682,267</u> | <u>\$ 24,087,266</u> | <u>\$ 22,617,928</u> |

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

Long-Term Debt. As of June 30, 2008, the Town had total debt outstanding of \$10,915,119.

Town of Holden Beach's Outstanding Debt

Long-Term Liabilities

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|----------------------|--------------------------------|-------------------|---------------------------------|---------------------|----------------------|---------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Notes payable | \$ 4,105,456 | \$ 110,031 | \$ 6,809,663 | \$ 7,758,465 | \$ 10,915,119 | \$ 7,868,496 |
| Compensated absences | <u>35,800</u> | <u>37,943</u> | <u>16,240</u> | <u>12,406</u> | <u>52,040</u> | <u>50,349</u> |
| Total | <u>\$ 4,141,256</u> | <u>\$ 147,974</u> | <u>\$ 6,825,903</u> | <u>\$ 7,770,871</u> | <u>\$ 10,967,159</u> | <u>\$ 7,918,845</u> |

The Town's total debt increased by \$3,048,314 during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation. The current debt limitation for the Town of Holden Beach is \$170,548,278, which is significantly greater than the Town's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

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

Building construction is expected to slow for 2009, and revenues were adjusted accordingly.

The water fund rates increased slightly and sewer fund rates remained constant for fiscal year 2008-2009.

Requests for Information

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

STATEMENT OF NET ASSETS
JUNE 30, 2008

| | <u>Primary Government</u> | | <u>Total</u> |
|--|------------------------------------|-------------------------------------|----------------------|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | |
| Assets: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 5,044,609 | \$ 1,577,271 | \$ 6,621,880 |
| Taxes receivable, net | 15,076 | - | 15,076 |
| Accounts receivable, net | 402,932 | 842,185 | 1,245,117 |
| Due from other governments | 71,680 | 8,312 | 79,992 |
| Inventories | - | 56,381 | 56,381 |
| Cash and cash equivalents, restricted | <u>3,106,670</u> | <u>1,048,095</u> | <u>4,154,765</u> |
| Total current assets | <u>8,640,967</u> | <u>3,532,244</u> | <u>12,173,211</u> |
| Capital assets: | | | |
| Land, non-depreciable improvements and construction in progress | 2,592,875 | 140,296 | 2,733,171 |
| Other capital assets, net of depreciation | <u>1,228,962</u> | <u>20,125,133</u> | <u>21,354,095</u> |
| Total capital assets | <u>3,821,837</u> | <u>20,265,429</u> | <u>24,087,266</u> |
| Total assets | <u>12,462,804</u> | <u>23,797,673</u> | <u>36,260,477</u> |
| Liabilities: | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 207,522 | 138,923 | 346,445 |
| Due to other governments | 57,493 | - | 57,493 |
| Unearned revenues | 184,516 | - | 184,516 |
| Compensated absences, due in one year | 30,430 | 13,804 | 44,234 |
| Bonds notes payable, due in one year | <u>280,299</u> | <u>521,109</u> | <u>801,408</u> |
| Total current liabilities | <u>760,260</u> | <u>673,836</u> | <u>1,434,096</u> |
| Long-term liabilities: | | | |
| Compensated absences | 5,370 | 2,436 | 7,806 |
| Bonds and notes payable | <u>3,825,157</u> | <u>6,288,554</u> | <u>10,113,711</u> |
| Total long-term liabilities | <u>3,830,527</u> | <u>6,290,990</u> | <u>10,121,517</u> |
| Total liabilities | <u>4,590,787</u> | <u>6,964,826</u> | <u>11,555,613</u> |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 2,823,051 | 13,455,766 | 16,278,817 |
| Restricted for streets | 58,335 | - | 58,335 |
| Unrestricted | <u>4,990,631</u> | <u>3,377,081</u> | <u>8,367,712</u> |
| Total net assets | <u>\$ 7,872,017</u> | <u>\$ 16,832,847</u> | <u>\$ 24,704,864</u> |

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Program Revenues</u> | | | |
|----------------------------------|-------------------------|---------------------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 1,149,993 | \$ 380,361 | \$ - | \$ - |
| Public safety | 968,952 | 2,718 | - | - |
| Transportation | 307,957 | 13,122 | - | 48,965 |
| Environmental protection | 104,150 | 6,328 | - | - |
| Beach renourishment | 2,183,553 | - | 125,290 | - |
| Interest and fees | 6,162 | - | - | - |
| Total governmental activities | <u>4,720,767</u> | <u>402,529</u> | <u>125,290</u> | <u>48,965</u> |
| Business-Type Activities: | | | | |
| Water and sewer | <u>3,289,410</u> | <u>1,996,482</u> | <u>-</u> | <u>1,572,669</u> |
| Total primary government | <u>\$ 8,010,177</u> | <u>\$ 2,399,011</u> | <u>\$ 125,290</u> | <u>\$ 1,621,634</u> |

General Revenues:

Taxes:

Property taxes, levied for general purposes

Sales and use taxes

Other taxes

Investment earnings

Transfers

Total general revenues and transfers

Change in net assets

Net Assets:

Beginning of year - July 1

End of year - June 30

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

Exhibit B

Net (Expense) Revenue and Changes in Net Assets

Primary Government

| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|----------------------|
| \$ (769,632) | \$ - | \$ (769,632) |
| (966,234) | - | (966,234) |
| (245,870) | - | (245,870) |
| (97,822) | - | (97,822) |
| (2,058,263) | - | (2,058,263) |
| (6,162) | - | (6,162) |
| <u>(4,143,983)</u> | <u>-</u> | <u>(4,143,983)</u> |
| | | |
| <u>-</u> | <u>279,741</u> | <u>279,741</u> |
| | | |
| <u>(4,143,983)</u> | <u>279,741</u> | <u>(3,864,242)</u> |
| | | |
| 1,557,869 | - | 1,557,869 |
| 229,118 | - | 229,118 |
| 1,494,664 | - | 1,494,664 |
| 242,504 | 62,710 | 305,214 |
| 500,000 | (500,000) | - |
| <u>4,024,155</u> | <u>(437,290)</u> | <u>3,586,865</u> |
| | | |
| (119,828) | (157,549) | (277,377) |
| | | |
| <u>7,991,845</u> | <u>16,990,396</u> | <u>24,982,241</u> |
| | | |
| <u>\$ 7,872,017</u> | <u>\$ 16,832,847</u> | <u>\$ 24,704,864</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

| | <u>Major Fund</u> | | | <u>Non-Major Fund</u> | <u>Total Governmental Fund</u> |
|--|---------------------|-----------------------|------------------------------|-----------------------|--------------------------------|
| | <u>General Fund</u> | <u>BPART Tax Fund</u> | <u>Capital Project Funds</u> | | |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 1,284,430 | \$ 3,376,547 | 3,246,243 | \$ 244,059 | \$ 8,151,279 |
| Taxes receivable, net | 15,076 | - | - | - | 15,076 |
| Accounts receivable, net | 52,718 | 350,214 | - | - | 402,932 |
| Due from other governments | 68,205 | 3,475 | - | - | 71,680 |
| Total assets | <u>\$ 1,420,429</u> | <u>\$ 3,730,236</u> | <u>\$ 3,246,243</u> | <u>\$ 244,059</u> | <u>\$ 8,640,967</u> |
| Liabilities and Fund Balances: | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 72,316 | \$ 9,720 | 125,486 | \$ - | \$ 207,522 |
| Due to other governments | - | 57,493 | - | - | 57,493 |
| Deferred revenue | 211,919 | - | - | - | 211,919 |
| Total liabilities | <u>284,235</u> | <u>67,213</u> | <u>125,486</u> | <u>-</u> | <u>476,934</u> |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| State statute | 120,923 | 353,689 | - | - | 474,612 |
| Streets - Powell Bill | 58,335 | - | - | - | 58,335 |
| Unreserved | 956,936 | 3,309,334 | 3,120,757 | 244,059 | 7,631,086 |
| Total fund balances | <u>1,136,194</u> | <u>3,663,023</u> | <u>3,120,757</u> | <u>244,059</u> | <u>8,164,033</u> |
| Total liabilities and fund balances | <u>\$ 1,420,429</u> | <u>\$ 3,730,236</u> | <u>\$ 3,246,243</u> | <u>\$ 244,059</u> | |

Amounts reported for governmental activities in the Statement of

Net Assets (Exhibit A) are different because:

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

3,821,837

Liabilities for earned but deferred revenues in the fund statements.

27,403

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.

(4,141,256)

Net assets of governmental activities

\$ 7,872,017

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

| | Major Fund | | | Non-Major Fund | Total Governmental Fund |
|--|---------------------|---------------------|--------------------------|-------------------|-------------------------------|
| | General Fund | BPART Tax Fund | Capital Project Funds | | |
| Revenues: | | | | | |
| Ad valorem taxes | \$ 1,555,954 | \$ - | \$ - | \$ - | \$ 1,555,954 |
| Other taxes and licenses | 236,539 | 1,487,243 | - | - | 1,723,782 |
| Unrestricted intergovernmental | 193,659 | - | - | - | 193,659 |
| Restricted intergovernmental | 48,965 | 109,765 | - | - | 158,730 |
| Permits and fees | 162,694 | - | - | - | 162,694 |
| Sales and services | 30,231 | - | - | - | 30,231 |
| Investment earnings | 57,828 | 163,418 | 14,087 | 7,171 | 242,504 |
| Miscellaneous | 11,068 | 20,402 | - | - | 31,470 |
| Total revenues | <u>2,296,938</u> | <u>1,780,828</u> | <u>14,087</u> | <u>7,171</u> | <u>4,099,024</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 1,941,089 | - | 893,330 | - | 2,834,419 |
| Public safety | 1,004,394 | - | - | - | 1,004,394 |
| Transportation | 290,593 | - | - | - | 290,593 |
| Environmental protection | 97,753 | - | - | - | 97,753 |
| Beach renourishment | - | 2,375,003 | - | - | 2,375,003 |
| Debt service: | | | | | |
| Principal retirement | 79,912 | - | - | - | 79,912 |
| Interest and fees | 6,162 | - | - | - | 6,162 |
| Total expenditures | <u>3,419,903</u> | <u>2,375,003</u> | <u>893,330</u> | <u>-</u> | <u>6,688,236</u> |
| Revenues over (under) expenditures | <u>(1,122,965)</u> | <u>(594,175)</u> | <u>(879,243)</u> | <u>7,171</u> | <u>(2,589,212)</u> |
| Other Financing Sources (Uses): | | | | | |
| Transfers (to) from Enterprise Fund | 500,000 | - | - | - | 500,000 |
| Proceeds from long-term debt | 75,337 | - | 4,000,000 | - | 4,075,337 |
| Total other financing sources (uses) | <u>575,337</u> | <u>-</u> | <u>4,000,000</u> | <u>-</u> | <u>4,575,337</u> |
| Net change in fund balances | (547,628) | (594,175) | 3,120,757 | 7,171 | 1,986,125 |
| Fund Balances: | | | | | |
| Beginning of year - July 1 | <u>1,683,822</u> | <u>4,257,198</u> | <u>-</u> | <u>236,888</u> | <u>6,177,908</u> |
| End of year - June 30 | <u>\$ 1,136,194</u> | <u>\$ 3,663,023</u> | <u>\$ 3,120,757</u> | <u>\$ 244,059</u> | <u>\$ 8,164,033</u> |

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

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

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds (Exhibit D) | \$ 1,986,125 |
| <p>Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected or is expected to be collected within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:</p> | |
| Property taxes and other sales and services | 1,153 |
| Expenses related to compensated absences and other accruals that do not require current financial resources are not reported as expenditures in the governmental funds statement. | 2,143 |
| Capital outlays are reported as expenditures in the governmental funds statement. However, in the statement of activities, capital outlay is not an expense, rather it is an increase in capital assets. | 1,987,337 |
| Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement. | (91,388) |
| Loss on disposal of capital assets does not require current financial resources and is not reported in the fund financial statements. | (9,773) |
| Principal repayments are reported as expenditures in the governmental funds statement. However, in the statement of activities, these transactions are not an expense, rather they are a decrease in liabilities. | 79,912 |
| Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities. | <u>(4,075,337)</u> |
| Change in net assets of governmental activities (Exhibit B) | <u>\$ (119,828)</u> |

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008**

| | General Fund | | | |
|--|-------------------------|------------------|------------------|---|
| | Budgeted Amounts | | Actual | Variance |
| | Original | Final | Amounts | With Final Budget Over/Under |
| Revenues: | | | | |
| Ad valorem taxes | \$ 1,439,418 | \$ 1,439,418 | \$ 1,555,954 | \$ 116,536 |
| Other taxes and licenses | 223,500 | 223,500 | 236,539 | 13,039 |
| Unrestricted intergovernmental | 119,400 | 119,400 | 193,659 | 74,259 |
| Restricted intergovernmental | 44,000 | 44,000 | 48,965 | 4,965 |
| Permits and fees | 225,375 | 225,375 | 162,694 | (62,681) |
| Sales and services | 15,550 | 15,550 | 30,231 | 14,681 |
| Investment earnings | 57,200 | 57,200 | 57,828 | 628 |
| Miscellaneous | 5,600 | 5,600 | 11,068 | 5,468 |
| Total revenues | 2,130,043 | 2,130,043 | 2,296,938 | 166,895 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 911,268 | 1,970,743 | 1,941,089 | 29,654 |
| Public safety | 981,183 | 981,183 | 1,004,394 | (23,211) |
| Transportation | 324,206 | 324,206 | 290,593 | 33,613 |
| Environmental protection | 91,630 | 91,630 | 97,753 | (6,123) |
| Beach renourishment | - | - | - | - |
| Debt service: | | | | |
| Principal retirement | 86,074 | 86,074 | 79,912 | 6,162 |
| Interest and fees | - | - | 6,162 | (6,162) |
| Total expenditures | 2,394,361 | 3,453,836 | 3,419,903 | 33,933 |
| Revenues over (under) expenditures | (264,318) | (1,323,793) | (1,122,965) | 200,828 |
| Other Financing Sources (Uses): | | | | |
| Transfers (to) from Special Revenue Fund | (71,400) | (5,425) | - | 5,425 |
| Transfers (to) from Enterprise Fund | - | 500,000 | 500,000 | - |
| Transfers (to) from General Fund | - | - | - | - |
| Proceeds from long-term debt | - | - | 75,337 | 75,337 |
| Fund balance appropriated | 335,718 | 829,218 | - | (829,218) |
| Total other financing sources (uses) | 264,318 | 1,323,793 | 575,337 | (748,456) |
| Revenues and other financing sources over (under) expenditures and other financing uses | \$ - | \$ - | (547,628) | \$ (547,628) |
| Fund Balances: | | | | |
| Beginning of year - July 1 | | | 1,683,822 | |
| End of year - June 30 | | | \$ 1,136,194 | |

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

Exhibit F

BPART Tax Fund

| Budgeted Amounts | | Actual Amounts | Variance With Final Budget Over/Under |
|-------------------------|------------------|---------------------------|--|
| Original | Final | | |
| \$ - | \$ - | \$ - | \$ - |
| 1,332,000 | 1,332,000 | 1,487,243 | 155,243 |
| - | - | - | - |
| 348,525 | 111,000 | 109,765 | (1,235) |
| - | - | - | - |
| - | - | - | - |
| 85,000 | 85,000 | 163,418 | 78,418 |
| 700 | 700 | 20,402 | 19,702 |
| <u>1,766,225</u> | <u>1,528,700</u> | <u>1,780,828</u> | <u>252,128</u> |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 2,072,430 | 2,453,930 | 2,375,003 | 78,927 |
| - | - | - | - |
| - | - | - | - |
| <u>2,072,430</u> | <u>2,453,930</u> | <u>2,375,003</u> | <u>78,927</u> |
| <u>(306,205)</u> | <u>(925,230)</u> | <u>(594,175)</u> | <u>331,055</u> |
| - | - | - | - |
| - | - | - | - |
| 71,400 | 5,425 | - | (5,425) |
| 234,805 | 919,805 | - | (919,805) |
| <u>306,205</u> | <u>925,230</u> | <u>-</u> | <u>(925,230)</u> |
| <u>\$ -</u> | <u>\$ -</u> | (594,175) | <u>\$ (594,175)</u> |
| | | <u>4,257,198</u> | |
| | | <u>\$ 3,663,023</u> | |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2008**

| | <u>Water & Sewer Fund</u> |
|--|-----------------------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,577,271 |
| Accounts receivable, net | 842,185 |
| Due from other governments | 8,312 |
| Inventories | 56,381 |
| Cash and cash equivalents, restricted | <u>1,048,095</u> |
| Total current assets | <u>3,532,244</u> |
| Capital assets: | |
| Land, non-depreciable improvements and construction in progress | 140,296 |
| Other capital assets, net of depreciation | <u>20,125,133</u> |
| Total capital assets, net | <u>20,265,429</u> |
| Total assets | <u>\$ 23,797,673</u> |
| Liabilities and Net Assets: | |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | \$ 9,972 |
| Accrued interest | 128,951 |
| Compensated absences | 13,804 |
| Notes payable - current maturities | <u>521,109</u> |
| Total current liabilities | <u>673,836</u> |
| Noncurrent liabilities: | |
| Notes payable - noncurrent maturities | 6,288,554 |
| Compensated absences | <u>2,436</u> |
| Total noncurrent liabilities | <u>6,290,990</u> |
| Total liabilities | <u>6,964,826</u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 13,455,766 |
| Unrestricted | <u>3,377,081</u> |
| Total net assets | <u>16,832,847</u> |
| Total liabilities and net assets | <u>\$ 23,797,673</u> |

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2008**

| | Water & Sewer Fund |
|--|-----------------------------------|
| Operating Revenues: | |
| Charges for services | \$ 1,656,273 |
| Taps and connection fees | 62,128 |
| Impact fees | 18,920 |
| Share fees | 124,347 |
| Other operating revenues | 134,814 |
| Total operating revenues | <u>1,996,482</u> |
| Operating Expenses: | |
| Administration | 117,469 |
| Water and sewer operations | 2,437,265 |
| Depreciation | 458,702 |
| Total operating expenses | <u>3,013,436</u> |
| Operating income (loss) | <u>(1,016,954)</u> |
| Nonoperating Revenues (Expenses): | |
| Investment earnings | 62,710 |
| Capital charges | 1,572,669 |
| Interest expense | (275,974) |
| Total nonoperating revenues (expenses) | <u>1,359,405</u> |
| Income (loss) before transfers | <u>342,451</u> |
| Transfers - in (out) | <u>(500,000)</u> |
| Change in net assets | (157,549) |
| Net Assets: | |
| Beginning of year - July 1 | <u>16,990,396</u> |
| End of year - June 30 | <u>\$ 16,832,847</u> |

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE - ENTERPRISE FUND
 FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Water & Sewer Fund</u> |
|--|-----------------------------------|
| Cash Flows From Operating Activities: | |
| Cash received from customers | \$ 1,995,120 |
| Cash paid for goods and services | (2,289,411) |
| Cash paid to employees | (267,880) |
| Net cash provided by operating activities | <u>(562,171)</u> |
| Cash Flows From Noncapital Financing Activities: | |
| Capital charges paid by customers | 1,572,670 |
| Transfers to other funds | (500,000) |
| Net cash used by non-capital financing activities | <u>1,072,670</u> |
| Cash Flows From Capital and Related Financing Activities: | |
| Acquisition and construction of capital assets | (41,865) |
| Principal paid on bonds | (985,667) |
| Interest paid on bonds | (294,046) |
| Installment notes issued | 36,865 |
| Net cash used by capital and related financing activities | <u>(1,284,713)</u> |
| Cash Flows From Investing Activities: | |
| Interest on investments | <u>62,710</u> |
| Net increase (decrease) in cash and cash equivalents | (711,504) |
| Cash and cash equivalents - beginning of year | <u>3,336,870</u> |
| Cash and cash equivalents - end of year | <u>\$ 2,625,366</u> |
| Reconciliation of Operating Income to Cash Flows from Operating Activities: | |
| Operating income (loss) | (1,016,954) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation | 458,702 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (1,362) |
| (Increase) decrease in due from other governments | 974 |
| (Increase) decrease in inventory | (9,559) |
| Increase (decrease) in accounts payable & accrued liabilities | 2,194 |
| Increase (decrease) in compensated absences payable | 3,834 |
| Total Adjustments | <u>454,783</u> |
| Net cash provided by operating activities | <u>\$ (562,171)</u> |

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

1. Summary of Significant Accounting Policies

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

B. Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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 result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

The Town reports the following major governmental funds:

Governmental Funds are used to account for the Town's general governmental activities. Governmental funds include the following fund types:

General Fund

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

BPART Tax Fund

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

Capital Project Funds

This capital project fund is used to account for the capital projects of the Town.

The Town reports the following non-major governmental funds:

Capital Reserve Fund

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

The Town reports the following major enterprise funds:

Proprietary Funds

Water & Sewer Fund

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 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.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Brunswick 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 Holden 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 Brunswick County from March 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, BPART Tax Special Revenue Fund, and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for any Grant Project Special Revenue Funds or Capital Project Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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 were made to the original budget. The amendments materially affected the budget causing an increase of expenditures in the general fund of \$1,059,475. The main budget amendment was to increase expenditures for the emergency operations center construction project started by the Town during the current year. 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

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT – Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

The Town of Holden Beach did not have any investments at June 30, 2008, other than certificates of deposit. 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 and non-participating interest earnings and investment contracts are reported at amortized 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.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Cash and Cash Equivalents

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

Restricted Assets

Unspent debt proceeds of the Capital Project Funds are classified as restricted assets for the capital project fund because their use is restricted to the purpose for which the note was originally issued.

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

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, 2007.

Assessments Receivable

As provided in Chapter 160A, Section 217, of the General Statutes of North Carolina, upon receiving a petition signed by a majority of the property owners and representing ownership of the majority of the lineal feet of frontage of the lands abutting the street to be improved, the Town may assess the owners a percentage of the cost of paving the street. The Town paves the street, as funds are available, assessing the property owners 60% of the cost. The assessments may be paid within 30 days of the notice of assessment without interest. Beyond 30 days, the assessments bear interest at the rate of 8% per annum. Street assessments receivable are not accrued as a revenue because the amount is not considered "available." An amount equal to the assessment receivable is shown as a deferred revenue on the balance sheet for the General Fund.

Allowances for Doubtful Accounts

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Inventory

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

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Town defines capital assets as assets with an individual cost of \$5,000 or more.

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

| <u>Description</u> | <u>Years</u> |
|------------------------|--------------|
| Buildings | 50 |
| Other Improvements | 50 |
| Equipment | 10 |
| Furniture and fixtures | 10 |
| Computers | 10 |
| Vehicles | 6 |
| Miscellaneous | 3 |

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.

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Compensated Absences

The vacation policy of the Town provides 5 days vacation during the first year of employment, 10 days during the 2nd through the 3rd years of employment, 15 days during the fourth through ninth year of employment and 20 days after 10 years of employment. The maximum accumulation of vacation is 30 days. Vacation is fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

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 can not 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.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for 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.

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.

Unreserved:

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

2. Stewardship, Compliance and Accountability

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2008, the expenditures made in the Town's General fund exceed the authorized appropriations made by the governing board for Public Safety activities by \$23,211 and Environmental Protection activities by \$6,123. The Town's Enterprise fund exceeded the authorized appropriations made by the governing board for Operations by \$106,073 and for Debt Service by \$491,641. Management and the Board will more closely review the budget reports to ensure compliance in the future.

3. Detail Notes on All Funds

A. Assets

Deposits

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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 with the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for 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, 2008, the Town's deposits had a carrying amount of \$10,776,645 and a bank balance of \$10,794,443. Of the bank balance, \$100,000 was covered by federal depository insurance and \$10,694,443 was covered by collateral held under the Pooling Method. As of June 30, 2008, the Town had \$100 in petty cash.

Accounts Receivable

The amounts presented in Exhibit A at June 30, 2008, were as follows:

| | <u>Accounts</u> | <u>Taxes</u> | <u>Due from Other Governments</u> | <u>Total</u> |
|----------------------------------|-------------------|------------------|---|-------------------|
| Governmental Activities: | | | | |
| General | \$ 408,349 | \$ 27,076 | \$ 71,680 | \$ 507,105 |
| Allowance for doubtful accounts | <u>(5,417)</u> | <u>(12,000)</u> | <u>-</u> | <u>(17,417)</u> |
| Total governmental activities | <u>\$ 402,932</u> | <u>\$ 15,076</u> | <u>\$ 71,680</u> | <u>\$ 489,688</u> |
| Business-Type Activities: | | | | |
| General | <u>\$ 842,185</u> | <u>\$ -</u> | <u>\$ 8,312</u> | <u>\$ 850,497</u> |

Due from other governments consists of Sales tax receivable.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Capital Assets

Governmental Activities:

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

| | <u>Balance</u> <u>June 30, 2007</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2008</u> |
|--|--|------------------|--------------------|--|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 909,947 | \$ - | \$ - | \$ 909,947 |
| Construction in progress | - | <u>1,682,928</u> | - | <u>1,682,928</u> |
| Total capital assets not being depreciated | <u>909,947</u> | <u>1,682,928</u> | - | <u>2,592,875</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 663,019 | - | - | 663,019 |
| Other improvements & infrastructure | 176,499 | 191,450 | - | 367,949 |
| Equipment | 256,235 | 37,622 | - | 293,857 |
| Vehicles | <u>350,776</u> | <u>75,337</u> | <u>(31,649)</u> | <u>394,464</u> |
| Total capital assets being depreciated | <u>1,446,529</u> | <u>304,409</u> | <u>(31,649)</u> | <u>1,719,289</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 129,626 | 13,260 | - | 142,886 |
| Other improvements & infrastructure | 8,807 | 3,530 | - | 12,337 |
| Equipment | 137,516 | 20,325 | - | 157,841 |
| Vehicles | <u>144,866</u> | <u>54,273</u> | <u>(21,876)</u> | <u>177,263</u> |
| Total accumulated depreciation | <u>420,815</u> | <u>\$ 91,388</u> | <u>\$ (21,876)</u> | <u>490,327</u> |
| Total capital assets being depreciated, net | <u>1,025,714</u> | | | <u>1,228,962</u> |
| Governmental activity capital assets, net | <u>\$ 1,935,661</u> | | | <u>\$ 3,821,837</u> |

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

| | |
|---------------------------------|------------------|
| Governmental Activities: | |
| General government | \$ 25,589 |
| Public safety | 42,038 |
| Transportation | 17,364 |
| Environmental protection | <u>6,397</u> |
| Total | <u>\$ 91,388</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Business-Type Activities:

Water and Sewer Fund:

The capital assets of the Proprietary Fund of the Town at June 30, 2008, were as follows:

| | <u>Balance</u> <u>June 30, 2007</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>June 30, 2008</u> |
|--|--|-------------------|--------------------|--|
| Business-type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 140,296 | \$ - | \$ - | \$ 140,296 |
| Total capital assets not being depreciated | <u>140,296</u> | <u>-</u> | <u>-</u> | <u>140,296</u> |
| Capital assets being depreciated: | | | | |
| Plant and distribution systems | 21,787,366 | - | - | 21,787,366 |
| Infrastructure | 184,026 | - | - | 184,026 |
| Furniture and maintenance equipment | 155,348 | 5,000 | - | 160,348 |
| Vehicles | <u>102,029</u> | <u>36,865</u> | <u>(37,278)</u> | <u>101,616</u> |
| Total capital assets being depreciated | <u>22,228,769</u> | <u>41,865</u> | <u>(37,278)</u> | <u>22,233,356</u> |
| Less accumulated depreciation for: | | | | |
| Plant and distribution systems | 1,497,881 | 435,747 | - | 1,933,628 |
| Infrastructure | 7,070 | 3,681 | - | 10,751 |
| Furniture and maintenance equipment | 97,662 | 10,091 | - | 107,753 |
| Vehicles | <u>84,185</u> | <u>9,184</u> | <u>(37,278)</u> | <u>56,091</u> |
| Total accumulated depreciation | <u>1,686,798</u> | <u>\$ 458,703</u> | <u>\$ (37,278)</u> | <u>2,108,223</u> |
| Total capital assets being depreciated, net | <u>20,541,971</u> | | | <u>20,125,133</u> |
| Business-type activity capital assets, net | <u>\$ 20,682,267</u> | | | <u>\$ 20,265,429</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 9.69% and 9.75%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Holden Beach is established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were \$98,744, \$103,951, and \$87,895, respectively. The contributions made by the Town equaled the required contributions for each year.

Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Holden Beach 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. A separate report was not issued for the plan.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Summary of Significant Accounting Policies:

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

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

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

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

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were \$30,464, which consisted of \$21,839 from the Town and \$8,625 from the law enforcement officers.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Supplemental Retirement Income Plan for Employees not Engaged in Law Enforcement

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to Town employees not engaged in law enforcement. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were \$59,628 which consisted of \$29,206 from the Town and \$30,422 from the employees.

Post-Employment Health Care Benefits

At retirement, all employees have the option to purchase basic medical insurance at the Town's group rate. The entire cost of this insurance is borne by the employees.

Other Employment Benefit

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Deferred Revenues

The balance in deferred revenues on the fund statements and unearned revenues on the government-wide statements at June 30, 2008, is composed of the following elements:

| | <u>Deferred Revenue</u> | <u>Unearned Revenue</u> |
|-----------------------------------|-----------------------------|-----------------------------|
| Heritage Harbor payments received | \$ 183,798 | \$ 183,798 |
| Taxes Receivable | 15,794 | 718 |
| Other receivables | <u>12,327</u> | <u>-</u> |
| Total | <u>\$ 211,919</u> | <u>\$ 184,516</u> |

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, police professional liability and public officials liability in excess of \$1,000,000; property in excess of \$500,000; and \$500,000 up to statutory limits for workers' compensation for the July 1, 2007 through July 1, 2008 policy period. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through policies with NC Farm Bureau Insurance. These policies have different coverage amounts based upon the particular building that is being covered.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer/tax collector is individually bonded for a total of \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Long-Term Obligations

Notes Payable are summarized as follows:

Governmental Activities:

| | |
|--|---------------------|
| 5.60% note, payable in annual installments of \$59,679 including interest; final payment due September 2008; secured by vehicles | \$ 56,514 |
| 5.40% note, payable in annual installments of \$26,466 including interest; final payment due October 2009; secured by vehicles | 48,942 |
| 3.81% note, payable in annual installments of \$200,000 plus interest; final payment due March 2028; secured by real estate | <u>4,000,000</u> |
| | <u>\$ 4,105,456</u> |

Business-Type Activities:

| | |
|---|---------------------|
| 3.79% note, payable in annual installments of \$472,309 including interest; final payment due November 2019; secured by real estate | \$ 4,488,112 |
| 3.79% note, payable in annual installments of \$294,415 including interest; final payment due November 2019; secured by real estate | 2,297,675 |
| 5.40% note, payable in annual installments of \$12,919 including interest; final payment due October 2009; secured by vehicles | <u>23,876</u> |
| | <u>\$ 6,809,663</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

| Year | Governmental Activities | | | Business-Type Activities | | |
|-----------|-------------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2009 | \$ 280,299 | \$ 158,202 | \$ 438,501 | \$ 521,109 | \$ 258,477 | \$ 779,586 |
| 2010 | 225,157 | 146,133 | 371,290 | 541,165 | 238,535 | 779,700 |
| 2011 | 200,000 | 137,160 | 337,160 | 548,898 | 217,826 | 766,724 |
| 2012 | 200,000 | 129,540 | 329,540 | 569,700 | 197,022 | 766,722 |
| 2013 | 200,000 | 121,920 | 321,920 | 591,292 | 175,431 | 766,723 |
| 2014-2018 | 1,000,000 | 495,300 | 1,495,300 | 3,142,609 | 523,529 | 3,666,138 |
| 2019-2023 | 1,000,000 | 304,800 | 1,304,800 | 894,890 | 49,728 | 944,618 |
| 2024-2028 | <u>1,000,000</u> | <u>114,300</u> | <u>1,114,300</u> | - | - | - |
| Total | <u>\$ 4,105,456</u> | <u>\$ 1,607,355</u> | <u>\$ 5,712,811</u> | <u>\$ 6,809,663</u> | <u>\$ 1,660,548</u> | <u>\$ 8,470,211</u> |

At June 30, 2008, the Town of Holden Beach had no bonds authorized but unissued and had a legal debt margin of \$170,548,278.

Changes in Long-term Liabilities

A summary of long-term debt is as follows:

| | Balance June 30, 2007 | Increases | Decreases | Balance June 30, 2008 | Current Portion |
|----------------------------------|--------------------------|---------------------|-------------------|--------------------------|--------------------|
| Governmental activities: | | | | | |
| Notes payable | \$ 110,031 | \$ 4,075,337 | \$ 79,912 | \$ 4,105,456 | \$ 280,299 |
| Compensated absences | 37,943 | 32,977 | 35,120 | 35,800 | 30,430 |
| | <u>\$ 147,974</u> | <u>\$ 4,108,314</u> | <u>\$ 115,032</u> | <u>\$ 4,141,256</u> | <u>\$ 310,729</u> |
| Business-type activities: | | | | | |
| Notes payable | \$ 7,758,465 | \$ 36,865 | \$ 985,667 | \$ 6,809,663 | \$ 521,109 |
| Compensated absences | 12,406 | 11,154 | 7,320 | 16,240 | 13,804 |
| | <u>\$ 7,770,871</u> | <u>\$ 48,019</u> | <u>\$ 992,987</u> | <u>\$ 6,825,903</u> | <u>\$ 534,913</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

C. Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2008, consist of the following:

| <u>Fund</u> | <u>From</u> | <u>To</u> | <u>Purpose</u> |
|-------------|-------------|-----------|--------------------------------|
| Sewer Fund | 500,000 | - | To pay half of emergency |
| General | - | 500,000 | operation center capital costs |

4. Jointly Governed Organization

The Town, in conjunction with twenty other local governments, participates in the Cape Fear Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council’s governing boards. The Town paid membership fees of \$460 to the Council during the fiscal year ended June 30, 2008.

The Town, in conjunction with Brunswick County and six other municipalities established the Brunswick Beaches Preservation Consortium (Consortium). The participating governments established the Consortium to plan and implement programs and projects directed toward preservation and maintenance of the ocean beaches. Each participating government appoints one representative to the policy board. The Town paid \$10,000 to the Consortium during the fiscal year ended June 30, 2008.

5. Contracted Service Agreement

The Town has entered into a sewer service agreement with Brunswick County for the East/West Brunswick Regional Wastewater Project. The term of the agreement is from July of 2002 for thirty (30) years or five years after the last maturity of the bonds issued to finance the project. Brunswick County has financed, constructed and is operating a sewer collection system and the Town, which is using this system for transmission and treatment of the Town’s sewage, has agreed to participate with the County in financing the project. The Town is responsible for assisting in paying for a portion of the operation and maintenance of the system and the Town also has to pay its share of the financing costs the County incurred for construction. The total amounts that the Town is responsible for are approximately 22.43% of the County’s 2004A Revenue Bond of \$31,540,000; 33.33% of the County’s 2004 Revolving Loan of \$20,000,000; and 33.33% of the County’s 2005 Revolving Loan of \$10,000,000. The Town also has to pay the same percentages of the interest on these debts. The payments made in the current year for the capital charges to Brunswick County were made in September 2007 and April of 2008 in the total amount of approximately \$1,296,216. The subsequent years’ payment will be approximately \$1,000,000 and will last for a total of twenty-five years. The Town levies a capital charge to residents in order to fund the payments.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

6. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

Contingencies

The Town has elected to pay direct costs of employment security benefits in lieu of employment security taxes on payroll. A liability for benefits could accrue in the year following the discharge of employees.

Commitments

The town has several building projects in progress at year end. The open commitments are as follows:

| <u>Vendor Name</u> | <u>Total Contract</u> | <u>Paid to date</u> | <u>Remaining Commitment</u> |
|-----------------------------------|---------------------------|-------------------------|---------------------------------|
| Dixie General Contractors | \$ 2,755,800 | \$ 996,836 | \$ 1,758,964 |
| Associated Industrial Contractors | 914,060 | 849,875 | 64,185 |
| | <u>\$ 3,669,860</u> | <u>\$ 1,846,711</u> | <u>\$ 1,823,149</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | 2007 |
|---|--------------|--------------|------------------------|--------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Ad valorem taxes: | | | | |
| Current year | \$ 1,435,918 | \$ 1,548,608 | \$ 112,690 | \$ 1,329,577 |
| Prior year | 1,500 | 2,339 | 839 | 9,006 |
| Penalties and interest | 2,000 | 5,007 | 3,007 | 4,834 |
| Total ad valorem taxes | 1,439,418 | 1,555,954 | 116,536 | 1,343,417 |
| Other taxes and licenses: | | | | |
| Privilege licenses | 8,500 | 7,421 | (1,079) | 9,237 |
| Local option sales tax | 215,000 | 229,118 | 14,118 | 224,958 |
| Total other taxes and licenses | 223,500 | 236,539 | 13,039 | 234,195 |
| Unrestricted intergovernmental: | | | | |
| Beer and wine tax | 3,400 | 4,215 | 815 | 4,017 |
| Telecommunications sales tax | 14,000 | 7,378 | (6,622) | 16,981 |
| Franchise tax | 94,000 | 135,789 | 41,789 | 92,766 |
| Video program tax | - | 46,277 | 46,277 | 11,131 |
| Sales tax refund - reclass | 8,000 | - | (8,000) | - |
| Total unrestricted intergovernmental revenues | 119,400 | 193,659 | 74,259 | 124,895 |
| Restricted intergovernmental: | | | | |
| Powell Bill allocation | 43,000 | 48,965 | 5,965 | 43,330 |
| Federal, state, and local grants | 1,000 | - | (1,000) | - |
| Total restricted intergovernmental revenues | 44,000 | 48,965 | 4,965 | 43,330 |
| Permits and fees: | | | | |
| Building permits | 136,475 | 113,915 | (22,560) | 218,245 |
| Stormwater fees | 10,000 | - | (10,000) | 10,000 |
| CAMA permits and reimbursements | 15,500 | 15,525 | 25 | 9,069 |
| Cable franchise fees | 58,800 | 7,555 | (51,245) | 58,804 |
| Other permits and fees | 4,600 | 19,750 | 15,150 | 14,857 |
| Dredging fees | - | 5,949 | 5,949 | 8,053 |
| Total permits and fees | 225,375 | 162,694 | (62,681) | 319,028 |
| Sales and services: | | | | |
| Sale of assets | 15,000 | 28,121 | - | 37,541 |
| Sales and services | 550 | 2,110 | 1,560 | 11,517 |
| Total sales and services | 15,550 | 30,231 | 1,560 | 49,058 |
| Investment earnings | 57,200 | 57,828 | 628 | 91,167 |
| Miscellaneous revenues | 5,600 | 11,068 | - | 5,948 |
| Total revenues | 2,130,043 | 2,296,938 | 148,306 | 2,211,038 |
| Expenditures: | | | | |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | Variance Over/Under | 2007 |
|----------------------------------|------------------|------------------|------------------------|------------------|
| | Budget | Actual | | Actual |
| General government: | | | | |
| Governing board: | | | | |
| Salaries and employee benefits | 8,800 | 13,271 | (4,471) | 8,347 |
| Other operating expenditures | 365,220 | 384,425 | (19,205) | 231,067 |
| Capital outlay | 1,000,000 | 915,084 | 84,916 | - |
| Total | 1,374,020 | 1,312,780 | 61,240 | 239,414 |
| Administration: | | | | |
| Salaries and employee benefits | 387,698 | 352,046 | 35,652 | 330,988 |
| Other operating expenditures | 200,625 | 218,045 | (17,420) | 341,049 |
| Capital outlay | 8,400 | 58,218 | (49,818) | 2,082 |
| Total | 596,723 | 628,309 | (31,586) | 674,119 |
| Total general government | 1,970,743 | 1,941,089 | 29,654 | 913,533 |
| Public Safety: | | | | |
| Police: | | | | |
| Salaries and employee benefits | 598,497 | 598,186 | 311 | 566,226 |
| Other operating expenditures | 69,300 | 73,631 | (4,331) | 68,346 |
| Capital outlay | 3,476 | 77,605 | (74,129) | 119,204 |
| Total | 671,273 | 749,422 | (78,149) | 753,776 |
| Inspections: | | | | |
| Salaries and employee benefits | 266,760 | 220,483 | 46,277 | 232,311 |
| Other operating expenditures | 43,150 | 34,489 | 8,661 | 47,165 |
| Capital outlay | - | - | - | 25,049 |
| Total | 309,910 | 254,972 | 54,938 | 304,525 |
| Total public safety | 981,183 | 1,004,394 | (23,211) | 1,058,301 |
| Transportation: | | | | |
| Streets: | | | | |
| Salaries and employee benefits | 128,476 | 117,096 | 11,380 | 96,061 |
| Other operating expenditures | 195,730 | 172,334 | 23,396 | 291,661 |
| Capital outlay | - | 1,163 | (1,163) | 42,061 |
| Total | 324,206 | 290,593 | 33,613 | 429,783 |
| Environmental protection: | | | | |
| Sanitation: | | | | |
| Salaries and employee benefits | 44,930 | 47,705 | (2,775) | 42,459 |
| Other operating expenditures | 46,700 | 50,048 | (3,348) | 32,285 |
| Total | 91,630 | 97,753 | (6,123) | 74,744 |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007**

| | 2008 | | | 2007 |
|--|--------------------|---------------------|------------------------|---------------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Debt service: | | | | |
| Principal | 86,074 | 79,912 | 6,162 | 59,678 |
| Interest | - | 6,162 | (6,162) | - |
| Total debt service | <u>86,074</u> | <u>86,074</u> | <u>-</u> | <u>59,678</u> |
| | | | | |
| Total expenditures | <u>3,453,836</u> | <u>3,419,903</u> | <u>33,933</u> | <u>2,536,039</u> |
| | | | | |
| Revenues over (under) expenditures | <u>(1,323,793)</u> | <u>(1,122,965)</u> | <u>200,828</u> | <u>(325,001)</u> |
| | | | | |
| Other Financing Sources (Uses): | | | | |
| Transfers (to) from Special Revenue Fund | (5,425) | - | 5,425 | (15,270) |
| Transfers (to) from Enterprise Fund | 500,000 | 500,000 | - | 13,775 |
| Proceeds from long-term debt | - | 75,337 | 75,337 | 169,709 |
| Appropriated fund balance | <u>829,218</u> | <u>-</u> | <u>(829,218)</u> | <u>-</u> |
| Total other financing sources | <u>1,323,793</u> | <u>575,337</u> | <u>(748,456)</u> | <u>168,214</u> |
| | | | | |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>(547,628)</u> | <u>\$ (547,628)</u> | <u>(156,787)</u> |
| | | | | |
| Fund Balances: | | | | |
| Beginning of year - July 1 | | <u>1,683,822</u> | | <u>1,840,609</u> |
| End of year - June 30 | | <u>\$ 1,136,194</u> | | <u>\$ 1,683,822</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

MAJOR GOVERNMENTAL FUND
SPECIAL REVENUE FUND - BPART TAX FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | | 2007 |
|--|------------------|---------------------|------------------------|---------------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Investment earnings | \$ 85,000 | \$ 163,418 | \$ 78,418 | \$ 170,131 |
| Sales tax refund | 700 | - | (700) | - |
| Occupancy tax receipts | 1,332,000 | 1,487,243 | 155,243 | 1,495,606 |
| CAMA grants | 111,000 | 109,765 | (1,235) | 11,400 |
| Miscellaneous | - | 20,402 | 20,402 | 5,686 |
| Total revenues | <u>1,528,700</u> | <u>1,780,828</u> | <u>252,128</u> | <u>1,682,823</u> |
| Expenditures: | | | | |
| Salaries and employee benefits | 24,480 | 28,427 | (3,947) | 25,282 |
| Operating expenditures | 2,177,450 | 2,101,594 | 75,856 | 356,562 |
| Capital outlay | 30,000 | 208 | 29,792 | 10,195 |
| County's share of occupancy tax | 222,000 | 244,774 | (22,774) | 246,088 |
| Total expenditures | <u>2,453,930</u> | <u>2,375,003</u> | <u>78,927</u> | <u>638,127</u> |
| Revenues over (under) expenditures | <u>(925,230)</u> | <u>(594,175)</u> | <u>331,055</u> | <u>1,044,696</u> |
| Other Financing Sources (Uses): | | | | |
| Transfer (to) from General Fund | 5,425 | - | (5,425) | 15,270 |
| Fund balance appropriated | 919,805 | - | (919,805) | - |
| Total other financing sources (uses) | <u>925,230</u> | <u>-</u> | <u>(925,230)</u> | <u>15,270</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>(594,175)</u> | <u>\$ (594,175)</u> | <u>1,059,966</u> |
| Fund Balance: | | | | |
| Beginning of year - July 1 | | <u>4,257,198</u> | | <u>3,197,232</u> |
| End of year - June 30 | | <u>\$ 3,663,023</u> | | <u>\$ 4,257,198</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

MAJOR GOVERNMENTAL FUND
 CAPITAL PROJECT FUNDS
 SCHEDULE OF REVENUES AND EXPENDITURES -
 BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2008

| | <u>Project Authorization</u> | <u>Actual</u> | | | <u>Variance Over (Under)</u> |
|--|----------------------------------|------------------------|-------------------------|--------------------------|----------------------------------|
| | | <u>Prior Years</u> | <u>Current Year</u> | <u>Total to Date</u> | |
| Revenues: | | | | | |
| Interest | \$ - | \$ - | \$ 14,087 | \$ 14,087 | \$ 14,087 |
| Total revenues | <u>-</u> | <u>-</u> | <u>14,087</u> | <u>14,087</u> | <u>14,087</u> |
| Expenditures: | | | | | |
| Town Hall/Police Department Project | | | | | |
| Construction | 2,775,000 | - | 794,173 | 794,173 | 1,980,827 |
| Engineering | 222,000 | - | 99,137 | 99,137 | 122,863 |
| Furnishings | 150,000 | - | - | - | 150,000 |
| Stormwater expense | <u>883,000</u> | <u>-</u> | <u>20</u> | <u>20</u> | <u>882,980</u> |
| Total Town Hall Project | <u>4,030,000</u> | <u>-</u> | <u>893,330</u> | <u>893,330</u> | <u>3,136,670</u> |
| Total expenditures | <u>4,030,000</u> | <u>-</u> | <u>893,330</u> | <u>893,330</u> | <u>3,136,670</u> |
| Revenues over (under) expenditures | <u>(4,030,000)</u> | <u>-</u> | <u>(879,243)</u> | <u>(879,243)</u> | <u>3,150,757</u> |
| Other Financing Sources (Uses): | | | | | |
| Appropriated fund balance | 30,000 | - | - | - | (30,000) |
| Proceed from long term debt | <u>4,000,000</u> | <u>-</u> | <u>4,000,000</u> | <u>4,000,000</u> | <u>-</u> |
| Total other financing sources (uses) | <u>4,030,000</u> | <u>-</u> | <u>4,000,000</u> | <u>4,000,000</u> | <u>(30,000)</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,120,757</u> | <u>\$ 3,120,757</u> | <u>\$ 3,120,757</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

CAPITAL RESERVE SPECIAL REVENUE - NONMAJOR GOVERNMENTAL FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | <u>2008</u> | | | <u>2007</u> |
|--|---------------|-------------------|--------------------------------|-------------------|
| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> | <u>Actual</u> |
| Revenues: | | | | |
| Investment earnings | \$ - | \$ 7,171 | \$ 7,171 | \$ 10,146 |
| Total revenues | - | 7,171 | 7,171 | 10,146 |
| Revenues and other financing sources over (under) expenditures and other financing uses | \$ - | 7,171 | \$ 7,171 | 10,146 |
| Fund Balances: | | | | |
| Beginning of year - July 1 | | 236,888 | | 226,742 |
| End of year - June 30 | | <u>\$ 244,059</u> | | <u>\$ 236,888</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

WATER & SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

| | 2008 | | Variance Over/Under | 2007 |
|------------------------------------|------------------|------------------|------------------------|------------------|
| | Budget | Actual | | Actual |
| Revenues: | | | | |
| Operating revenues: | | | | |
| Water and sewer charges | \$ 1,097,537 | \$ 1,656,273 | \$ 558,736 | \$ 678,809 |
| Sewer tap and connection fees | 27,700 | 62,128 | 34,428 | 272,892 |
| Capital charges | 1,989,594 | 1,572,669 | (416,925) | 1,225,216 |
| Impact fees | 25,000 | 18,920 | (6,080) | 84,590 |
| Share fees | - | 124,347 | 124,347 | - |
| Other operating revenues | 103,396 | 134,814 | 31,418 | 103,296 |
| Total operating revenues | <u>3,243,227</u> | <u>3,569,151</u> | <u>325,924</u> | <u>2,364,803</u> |
| Nonoperating revenues: | | | | |
| Interest earnings | <u>27,500</u> | <u>62,710</u> | <u>35,210</u> | <u>68,551</u> |
| Total revenues | <u>3,270,727</u> | <u>3,631,861</u> | <u>361,134</u> | <u>2,433,354</u> |
| Expenditures: | | | | |
| Administration: | | | | |
| Salaries and employee benefits | 101,170 | 94,130 | 7,040 | 57,932 |
| Operating expenses | 26,500 | 23,339 | 3,161 | 15,986 |
| Capital outlay | - | - | - | 27,454 |
| Total | <u>127,670</u> | <u>117,469</u> | <u>10,201</u> | <u>101,372</u> |
| Operations: | | | | |
| Salaries and employee benefits | 150,163 | 177,584 | (27,421) | 147,307 |
| Operating expenses | 2,140,494 | 2,247,112 | (106,618) | 1,848,069 |
| Capital outlay | 82,400 | 54,434 | 27,966 | 57,776 |
| Total | <u>2,373,057</u> | <u>2,479,130</u> | <u>(106,073)</u> | <u>2,053,152</u> |
| Debt service: | | | | |
| Principal retirement | - | 985,667 | (985,667) | 406,118 |
| Interest and fees | 770,000 | 275,974 | 494,026 | 302,677 |
| Total | <u>770,000</u> | <u>1,261,641</u> | <u>(491,641)</u> | <u>708,795</u> |
| Total expenditures | <u>3,270,727</u> | <u>3,858,240</u> | <u>(587,513)</u> | <u>2,863,319</u> |
| Revenues over (under) expenditures | <u>-</u> | <u>(226,379)</u> | <u>(226,379)</u> | <u>(429,965)</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**WATER & SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007**

| | 2008 | | Variance Over/Under | 2007 |
|--|-----------|--------------|------------------------|--------------|
| | Budget | Actual | | Actual |
| Other Financing Sources (Uses): | | | | |
| Transfer (to) from General Fund | (500,000) | (500,000) | - | (10,000) |
| Transfer (to) from Water & Sewer Capital Reserve | (24,800) | - | 24,800 | - |
| Proceeds from long term debt | - | 36,865 | 36,865 | - |
| Appropriated fund balance | 524,800 | - | (524,800) | - |
| Total other financing sources (uses) | - | (463,135) | (463,135) | (10,000) |
| Revenues and other financing sources over (under) expenditures and other financing uses | \$ - | (689,514) | \$ (689,514) | \$ (439,965) |
| Reconciliation from budgetary basis (modified accrual) to full accrual: | | | | |
| Revenues and other financing sources over | | | | |
| Reconciling items: | | | | |
| Principal retirement | | 985,667 | | |
| Capital outlay | | 41,865 | | |
| Proceeds from long term debt | | (36,865) | | |
| Depreciation | | (458,702) | | |
| Net income (loss) - GAAP Basis | | \$ (157,549) | | |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2008

| Year | Uncollected Balance July 1, 2007 | Additions | Collections and Credits | Uncollected Balance June 30, 2008 |
|---|--|---------------------|----------------------------|---|
| Property taxes: | | | | |
| 2007-2008 | \$ - | \$ 1,564,752 | \$ 1,547,016 | \$ 17,736 |
| 2006-2007 | 8,490 | - | 3,014 | 5,476 |
| 2005-2006 | 484 | - | - | 484 |
| 2004-2005 | 302 | - | - | 302 |
| 2003-2004 | 679 | - | 4 | 675 |
| 2002-2003 | 1,486 | - | - | 1,486 |
| 2001-2002 | 931 | - | 647 | 284 |
| 2000-2001 | 282 | - | - | 282 |
| 1999-2000 | 29 | - | - | 29 |
| 1998-1999 | 322 | - | - | 322 |
| 1997-1998 | 156 | - | 156 | - |
| Ad valorem taxes | <u>\$ 13,161</u> | <u>\$ 1,564,752</u> | <u>\$ 1,550,837</u> | 27,076 |
| Less: Allowance for uncollectible accounts | | | | <u>(12,000)</u> |
| Ad valorem taxes receivable, net | | | | <u>\$ 15,076</u> |
| Reconciliation of collections and credits with revenues: | | | | |
| Ad valorem taxes: | | | | |
| General Fund | | | | \$ 1,555,954 |
| Reconciling items: | | | | |
| Interest collected | | | | (5,007) |
| Taxes written off and credits | | | | 268 |
| Miscellaneous adjustments | | | | <u>(378)</u> |
| Total collections and credits | | | | <u>\$ 1,550,837</u> |

TOWN OF HOLDEN BEACH, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY
FOR THE YEAR ENDED JUNE 30, 2008

| | Town-Wide | | Total Levy | | |
|---|-------------------------|---------|---------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original levy: | | | | | |
| Property taxed at current year's rate | \$ 2,268,143,575 | 0.00069 | \$ 1,565,020 | \$ 1,553,648 | \$ 11,372 |
| Total original levy | <u>2,268,143,575</u> | | <u>1,565,020</u> | <u>1,553,648</u> | <u>11,372</u> |
| Abatements | <u>(148,889)</u> | | <u>(268)</u> | | <u>(268)</u> |
| Total property valuation | <u>\$ 2,268,292,464</u> | | | | |
| Net levy | | | 1,564,752 | 1,553,648 | 11,104 |
| Uncollected taxes at June 30, 2008 | | | <u>17,736</u> | <u>17,088</u> | <u>648</u> |
| Current year's taxes collected | | | <u>\$ 1,547,016</u> | <u>\$ 1,536,560</u> | <u>\$ 10,456</u> |
| Current levy collection percentage | | | <u>98.87%</u> | <u>98.90%</u> | <u>94.16%</u> |



Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

**Report on Internal Control over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards***

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Town of Holden Beach, North Carolina as of and for the year ended June 30, 2008, which collectively comprise the Town of Holden Beach's basic financial statements, and have issued our report thereon dated January 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Holden Beach's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Holden Beach's financial statements that is more than inconsequential will not be prevented or detected by the Town of Holden Beach's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-01 2008-02 and 2008-03 to be material weaknesses.

Compliance and Other Matters

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

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
January 9, 2009

TOWN OF HOLDEN BEACH, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2008

1. Summary of Auditor's Results

- A. An unqualified opinion was issued on the financial statements of the Town of Holden Beach, North Carolina.
- B. Four significant deficiencies disclosed during the audit of the financial statements are reported in the Schedule of Findings and Responses below. 2008-01, 2008-02 and 2008-03 are reported as material weaknesses.
- C. There were no instances of noncompliance that were material to the financial statements noted.

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

Finding 2008-01:

Criteria: Management should have a system in place to adequately separate access to assets from access to the general ledger. This "segregation of duties" internal control concept is necessary to provide an environment for proper financial reporting and the safeguarding of Town assets.

Condition: The Finance Officer prepares and records all journal entries to the general ledger. There is no approval or review process in place. This weakness creates an environment that circumvents any other internal controls the Town has in place. An additional area of lack of segregation of duties is that Finance Officer maintains all payroll data and serves in the Human Resource management position while processing the Town's payroll. This weakness is mitigated by the "check edit" review by the Town manager. However, the Town should evaluate separating the HR function from finance.

Recommendation: All journal entries should be approved by the Town Manager before posting to the general ledger. If possible, the Town Manager should periodically review the general journal entries posted to the general ledger to verify compliance with the control procedure discussed herein. Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties.

Name of Contact Person: David Hewett

Corrective Action: Management concurs and will discuss the journal entry process to develop proper controls over this function in the finance department. Management will separate human resources function from physical operations duties by June 30, 2009.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2008

Finding 2008-02:

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

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

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

Name of Contact Person: David Hewett

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

Finding 2008-03:

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

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

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

Name of Contact Person: David Hewett

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

TOWN OF HOLDEN BEACH, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2008

Finding 2008-04:

Criteria: The Town should have an information system in place that provides adequate budgetary controls and automated processing of transactions.

Condition: Below is a summary of some of the weaknesses we identified with the information system currently in place at the Town. This list is not meant to be all-inclusive, but does include the major areas we detected during our audit procedures:

- Near year-end all purchases must be passed by the Finance Officer so she can manually monitor budget compliance.
- Centralized collections do not post tax collections to the individual taxpayer's accounts. This function is performed by the Finance Officer due to limitations of who can have access to the taxes receivable subsidiary information.
- Once a day, the Finance Officer must require everyone in the system to log out so that she can update the system for the day's transactions. This is a limitation of the DOS based system.

Recommendation: The cost of updating the Town's information system should be evaluated with the benefits to be obtained by updating the system. While the current system is functional, it is by no means efficient. We did not detect any errors as a result of this finding.

Name of Contact Person: David Hewett

Corrective Action: Management has taken step to update the computer system since year end and expects that a majority of this finding will be resolved in 2009.

TOWN OF HOLDEN BEACH, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEAR'S FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Status of Prior Year Findings:

2007-01 Repeated as 2008-01

2007-02 Repeated as 2008-02

2007-03 Repeated as 2008-04