

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Report of Audit

For the Fiscal Year Ended June 30, 2012

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Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Minnesott Beach, North Carolina

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Minnesott Beach, North Carolina, as of and for the year ended June 30, 2012, 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 Minnesott Beach, North Carolina's management. Our responsibility is to express opinions 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. 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 opinion.

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 and each major fund of the Town of Minnesott Beach, North Carolina as of June 30, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Minnesott Beach's financial statements as a whole. The individual fund statements, budgetary schedules and other schedules, are presented for purposed of additional analysis and are not a required part of the basic financial statements. The individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund statements, budgetary schedules and other schedules, are fairly stated in all material respects in relation to the financial statements taken as a whole.

S. Preston Douglas & Associates, LLP

October 25, 2012

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Management's Discussion and Analysis

As management of the Town of Minnesott Beach, we offer readers of the Town of Minnesott Beach financial statements this narrative overview and analysis of the financial activities of the Town of Minnesott Beach for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

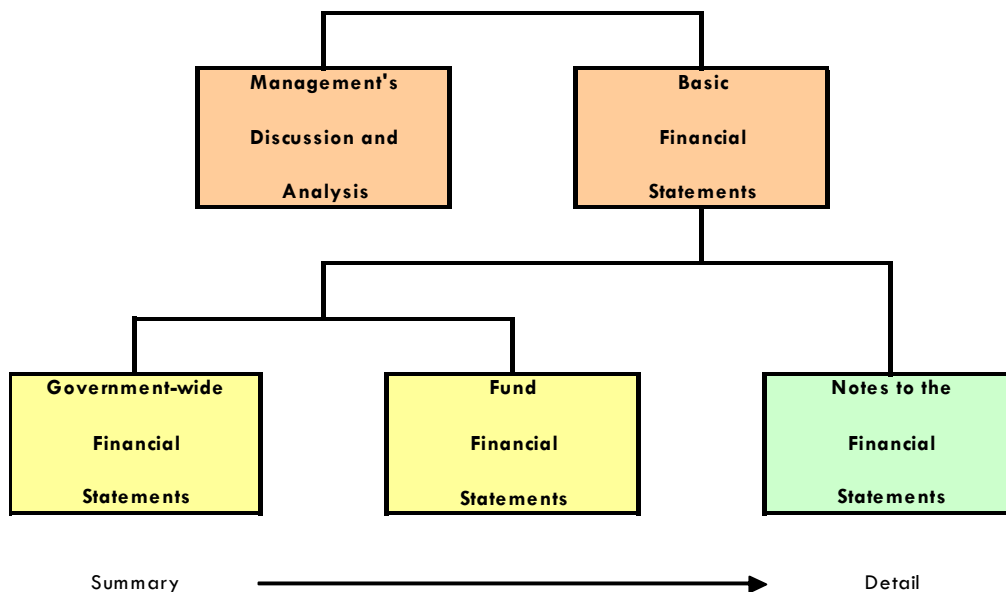
- The assets of the Town of Minnesott Beach exceeded its liabilities at the close of the fiscal year by \$818,535.
- The government's total net assets increased by \$7,112.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Minnesott Beach basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Minnesott Beach.

Required Components of Annual Financial Report

Figure 1



Management's Discussion and Analysis (Continued)

Basic Financial Statements

The first two statements (pages 16 through 19) 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 (pages 20 through 24) 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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison 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 also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Minnesott Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Minnesott Beach can be divided into one category: governmental funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Management's Discussion and Analysis (Continued)

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 25 through 33 of this report.

Government-Wide Financial Analysis

The Town of Minnesott Beach Net Assets

Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 528,013	504,297	\$ -	-	\$ 528,013	\$ 504,297
Capital assets	290,776	310,685	-	-	290,776	310,685
Total assets	<u>818,789</u>	<u>814,982</u>	<u>-</u>	<u>-</u>	<u>818,789</u>	<u>814,982</u>
Long-term liabilities outstanding	-	-	-	-	-	-
Other liabilities	254	3,559	-	-	254	3,559
Total liabilities	<u>254</u>	<u>3,559</u>	<u>-</u>	<u>-</u>	<u>254</u>	<u>3,559</u>
Net assets:						
Invested in capital assets, net of related debt	290,776	310,685	-	-	290,776	310,685
Restricted	-	-	-	-	-	-
Unrestricted	527,759	500,738	-	-	527,759	500,738
Total net assets	<u>\$ 818,535</u>	<u>811,423</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 818,535</u>	<u>\$ 811,423</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Minnesott Beach exceeded liabilities by \$818,535 as of June 30, 2012. The Town's net assets increased by \$7,112 for the fiscal year ended June 30, 2012. However, the second largest portion (36%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Minnesott Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Management's Discussion and Analysis (Continued)

The Town of Minnesott Beach Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 256	\$ 336	\$ -	\$ -	\$ 256	\$ 336
Operating grants and contributions	22,326	15,900	-	-	22,326	15,900
Capital grants and contributions	-	-	-	-	-	-
General Revenues						
Property taxes	127,545	146,371	-	-	127,545	146,371
Local Option Sales Taxes	-	-	-	-	-	-
Other taxes	45	88	-	-	45	88
Grants and contributions not restricted to specific programs	62,922	51,579	-	-	-	-
Other	2,375	2,659	-	-	2,375	2,659
Total revenues	215,469	216,933	-	-	152,547	165,354
Expenses:						
General government	84,728	53,384	-	-	84,728	53,384
Public Works	14,145	25,272	-	-	14,145	25,272
Highways/Streets	109,484	36,851	-	-	109,484	36,851
Total expenses	208,357	115,507	-	-	208,357	115,507
Increase(Decrease) in net assets before transf	7,112	101,426	-	-	7,112	49,847
Transfers	-	-	-	-	-	-
Change in net assets	7,112	101,426	-	-	7,112	49,847
Net assets, July 1	811,423	709,997	-	-	811,423	709,997
Net assets, June 30	\$ 818,535	\$ 811,423	\$ -	\$ -	\$ 818,535	\$ 759,844

Governmental activities. Governmental activities increased the Town's net assets by \$7,112, thereby accounting for 100% of the total increase in the net assets of the Town of Minnesott Beach. Key elements of this increase are as follows:

- Expenses increased by \$92,850.

Financial Analysis of the Town's Funds

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

Management's Discussion and Analysis (Continued)

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

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. 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 services.

Capital Asset and Debt Administration

Capital assets. The Town of Minnesott Beach investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$290,776 (net of accumulated depreciation). These assets include buildings, land, and equipment.

There were no additions or disposals of any capital assets during the 2012 fiscal year.

The Town of Minnesott Beach Capital Assets

Figure 4

(Net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 21,769	\$ 21,769	\$ -	\$ -	\$ 21,769	\$ 21,769
Buildings	16,035	16,828	-	-	16,035	16,828
Vehicles and Equipment	7,282	11,058	-	-	7,282	11,058
Infrastructure	245,690	261,030	-	-	245,690	261,030
Total	\$ 290,776	\$ 310,685	\$ -	\$ -	\$ 290,776	\$ 310,685

Additional information on the Town's capital assets can be found in Note II of the Basic Financial Statements.

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Population growth. The Town expects a slow population growth within Town limits.

Budget Highlights for the Fiscal Year Ending June 30, 2012

Governmental Activities: Property taxes (benefiting from the economic growth) and revenues from restricted and unrestricted grants and contributions are the main financial revenues for the town.

Requests for Information

This report is designed to provide an overview of the Town finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the following:

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Town Manager/Finance Officer
11758 NC Hwy 306 South,
Minnesott Beach, NC 28510
Telephone: (252) 249-1755
Fax: (252) 249-0285
Email: minnesottbeach@embarqmail.com

Basic Financial Statements

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 510,754
Receivables (net):	
Ad Valorem Taxes	4,263
Accrued Interest - Taxes	172
Due from Other Governments	<u>12,824</u>
Total Current Assets	<u>528,013</u>
Noncurrent Assets:	
Capital Assets	
Land, Nondepreciable Improvements, and Construction in Progress	21,769
Other Capital Assets, Net of Depreciation	<u>269,007</u>
Total Capital Assets	<u>290,776</u>
Total Assets	<u><u>\$ 818,789</u></u>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Statement of Net Assets (Continued)

June 30, 2012

	<u>Governmental Activities</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	\$ -
Unearned Revenue	254
	<hr/>
Total Liabilities	254
	<hr/>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	290,776
Restricted For:	
Transportation	-
Unrestricted	527,759
	<hr/>
Total Net Assets	\$ 818,535
	<hr/> <hr/>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 84,728	\$ 301	\$ 4,532	\$ -
Public Works	14,145	-	-	-
Streets and Highways	109,484	-	17,794	-
Interest on Long-Term Debt	-	-	-	-
Total Governmental Activities	208,357	301	22,326	-

General Revenues:

- Property Taxes, Levied for General Purpose
- Grants and Contributions not Restricted to Specific Programs
- Unrestricted Investment Earnings
- Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets - Beginning of Year

Net Assets - End of Year

**Net (Expense) Revenue
and Changes in
Net Assets**

**Governmental
Activities**

\$	(79,895)
	(14,145)
	(91,690)
	-
	<hr/>
	(185,730)
	<hr/>
	127,545
	62,922
	984
	1,391
	<hr/>
	192,842
	<hr/>
	7,112
	811,423
\$	<hr/>
	818,535
	<hr/>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Balance Sheet
Governmental Funds
June 30, 2012

	<u>Major Funds</u>
	<u>General</u>
ASSETS	
Cash and Investments	\$ 510,754
Receivables (net):	
Ad Valorem Taxes	4,263
Due from Other Governments	<u>12,824</u>
Total Assets	<u>\$ 527,841</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable and Accrued Liabilities	\$ -
Unearned Revenue	254
Deferred Revenue	<u>4,263</u>
Total Liabilities	<u>4,517</u>
Fund Balances:	
Restricted	
Stabilization by State Statute	12,824
Streets - Powell Bill	-
Assigned	
Subsequent Year's Expenditures	8,400
Unassigned	<u>502,100</u>
Total Fund Balances	<u>523,324</u>
Total Liabilities and Fund Balances	<u>\$ 527,841</u>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Balance Sheet (Continued)

Governmental Funds

June 30, 2012

	Total Governmental Funds
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Fund balances - total governmental funds	523,324
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Gross capital assets at historical costs	\$ 400,752
Accumulated depreciation	<u>(109,976)</u> \$ 290,776
<p>Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred</p>	
Accrued interest - taxes	<u>172</u> 172
<p>Liabilities for earned but deferred revenues in fund statements.</p>	
Ad valorem taxes	<u>4,263</u> 4,263
Net assets of governmental activities.	<u>\$ 818,535</u>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

	<u>Major Funds</u>
	<u>General Fund</u>
Revenues	
Ad Valorem Taxes	\$ 126,583
Other Taxes and Licenses	45
Unrestricted Intergovernmental	62,922
Restricted Intergovernmental	22,326
Sales and Services	256
Investment Earnings	984
Miscellaneous	1,391
Total Revenues	<u>214,507</u>
Expenditures	
General Government	80,159
Public Works	14,145
Streets and Highways	94,145
Total Expenditures	<u>188,449</u>
Net Change in Fund Balance	26,058
Fund Balance - Beginning of Year	<u>497,266</u>
Fund Balance - End of Year	<u>\$ 523,324</u>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance (Continued)
Governmental Funds
For the Year Ended June 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	26,058
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	\$	-	
Depreciation expense		<u>(19,909)</u>	(19,909)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Change in deferred revenue for ad valorem tax revenues	791	
Interest earned on ad valorem taxes	<u>172</u>	963

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issuance	-	
Debt retirement	<u>-</u>	-

Total changes in net assets of governmental activities	\$	<u><u>7,112</u></u>
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TOWN OF MINNESOTT BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

For the Fiscal Year Ended June 30, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues				
Ad Valorem Taxes	\$ 117,771	\$ 117,771	\$ 126,583	\$ 8,812
Other Taxes and Licenses	85	85	45	(40)
Unrestricted Intergovernmental	34,600	34,600	62,922	28,322
Restricted Intergovernmental	15,000	15,000	22,326	7,326
Sales and Services	192	192	256	64
Investment Earnings	850	850	984	134
Miscellaneous	550	550	1,391	841
Total Revenues	<u>169,048</u>	<u>169,048</u>	<u>214,507</u>	<u>45,459</u>
Expenditures				
General Government	139,890	139,890	80,159	59,731
Public Works	17,558	17,558	14,145	3,413
Streets and Highways	20,000	20,000	94,145	(74,145)
Total Expenditures	<u>177,448</u>	<u>177,448</u>	<u>188,449</u>	<u>(11,001)</u>
Revenues Over (Under) Expenditures	<u>(8,400)</u>	<u>(8,400)</u>	<u>26,058</u>	<u>34,458</u>
Appropriated Fund Balance	<u>8,400</u>	<u>8,400</u>	<u>-</u>	<u>(8,400)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>26,058</u>	<u>\$ 26,058</u>
Fund Balance - Beginning of Year			<u>497,266</u>	
Fund Balance - End of Year			<u>\$ 523,324</u>	

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Minnesott 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 Minnesott Beach is a municipal corporation that is governed by an elected mayor and a four-member council.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the Town. These statements include the financial activities of the overall government. These statements distinguish between the *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses 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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental funds:

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

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

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Pamlico 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 Minnesott 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 Pamlico County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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.

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Budget Officer may transfer appropriations between functional areas within a fund up to 10%; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%, must be approved by the governing board.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

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

2. Cash and Cash Equivalents

The Town considers all highly liquid investments, (including restricted assets) with a maturity of one year or less when purchased, to be cash and cash equivalents.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2011.

5. 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.

6. Inventory and Prepaid Items

The inventories of the Town consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when purchased.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 are not recorded. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	20
Buildings	40
Improvements	25
Vehicles	5
Furniture and Fixtures	7
Equipment	5
Computer Equipment	3
Software	3

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Fund Equity (Continued)

8. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

Assigned Fund Balance – portion of fund balance that Minnesott Beach’s governing body intends to use for specific purposes.

 Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed.

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

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. 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 agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial 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, 2012, the Town's deposits had a carrying amount of \$310,235 and a bank balance of \$310,675. Of the bank balance, \$310,675 was covered by federal depository. At June 30, 2012, the Town's petty cash funds totaled \$50.

2. Investments

The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the Town does not own any identifiable securities, but are shareholders of a percentage of the fund.

At June 30, 2012, the Town of Minnesott Beach had \$200,469 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

Fund	06/30/2012
General Fund:	
Taxes Receivable	\$ 500
Total	\$ 500

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 21,769	\$ -	\$ -	\$ 21,769
Construction in Progress	-	-	-	-
Total capital assets not being Depreciated	<u>21,769</u>	<u>-</u>	<u>-</u>	<u>21,769</u>
Capital assets being depreciated:				
Buildings	31,726	-	-	31,726
Equipment	37,767	-	-	37,767
Vehicles	2,700	-	-	2,700
Infrastructure	<u>306,790</u>	<u>-</u>	<u>-</u>	<u>306,790</u>
Total capital assets being Depreciated	<u>378,983</u>	<u>-</u>	<u>-</u>	<u>378,983</u>
Less accumulated depreciation for:				
Buildings	14,898	793	-	15,691
Equipment	26,709	3,776	-	30,485
Vehicles	2,700	-	-	2,700
Infrastructure	<u>45,760</u>	<u>15,340</u>	<u>-</u>	<u>61,100</u>
Total accumulated depreciation	<u>90,067</u>	<u>19,909</u>	<u>-</u>	<u>109,976</u>
Total capital assets being depreciated, net	<u>288,916</u>			<u>269,007</u>
Governmental activity capital assets, net	<u>\$ 310,685</u>			<u>\$ 290,776</u>

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

General Government	\$ 4,570
Streets and Highways	<u>15,339</u>
Total	<u>\$ 19,909</u>

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued)

B. Deferred / Unearned Revenues

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

	Deferred Revenue	Unearned Revenue
Taxes receivable (General Fund)	4,263	-
Prepaid taxes (General Fund)	-	254
Total	\$ 4,263	254

C. 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 the 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 limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to the statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

D. Fund Balance

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

Total fund balance – General Fund	\$ 523,324
Less:	
Stabilization by State Statute	12,824
Streets – Powell Bill	-
Appropriated Fund Balance in 2013 budget	8,400
Remaining Fund Balance	502,100

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

Encumbrances	General Fund	Non-Major Funds
	\$ -	\$ -

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Notes to the Financial Statements (Continued)

For the Fiscal Year Ended June 30, 2012

III. 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.

IV. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 2012, the date the financial statements were available to be issued.

V. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, the expenditures made in the Town of Minnesott Beach's General Fund exceeded the authorized appropriations made by the governing board for Streets and Highways by \$74,145. Management and the Board will more closely review the budget reports to ensure compliance in future years.

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Major Governmental Funds

General Fund

TOWN OF MINNESOTT BEACH, NORTH CAROLINA
 General Fund
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Revenues			
Ad Valorem Taxes			
Taxes		\$ 126,258	
Penalties and Interest		325	
Total Ad Valorem Taxes	\$ 117,771	126,583	\$ 8,812
Other Taxes and Licenses			
Privilege Licenses		45	
Total Other Taxes and Licenses	85	45	(40)
Unrestricted Intergovernmental			
Local Option Sales Tax		43,013	
Utility Franchise Tax		11,431	
Telecommunications Tax		2,396	
Video Franchise Fee		3,965	
Beer and Wine Tax		1,906	
Solid Waste Disposal Tax		211	
Total Unrestricted Intergovernmental	34,600	62,922	28,322
Restricted Intergovernmental			
Disaster Assistance		4,532	
Powell Bill Allocation		17,794	
Total Restricted Intergovernmental	15,000	22,326	7,326
Sales and Services			
Solid Waste		256	
Total Sales and Services	192	256	64
Investment Earnings			
General		984	
Total Investment Earnings	850	984	134
Miscellaneous			
Other		1,391	
Total Miscellaneous	550	1,391	841
Total Revenues	169,048	214,507	45,459

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)

Budget and Actual

For the Fiscal Year Ended June 30, 2012

	Final Budget	Actual	Variance Positive (Negative)
Expenditures			
General Government			
Salaries, Wages and Employee Benefits		\$ 16,281	
Other Operating Expenditures		63,878	
Total Governing Body	\$ 139,890	80,159	\$ 59,731
Public Works			
Salaries, Wages and Employee Benefits		3,537	
Other Operating Expenditures		10,608	
Total Public Works	17,558	14,145	3,413
Streets and Highways			
Other Operating Expenditures		94,145	
Total Streets and Highways	20,000	94,145	(74,145)
Total Expenditures	177,448	188,449	(11,001)
Revenues Over (Under)			
Expenditures	(8,400)	26,058	34,458
Fund Balance Appropriated	8,400	-	(8,400)
Net Change in Fund Balance	\$ -	26,058	\$ 26,058
Fund Balance - Beginning of Year		497,266	
Fund Balance - End of Year		\$ 523,324	

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Other Schedules

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2012

Fiscal Year	Uncollected Balance 7-1-11	Additions and Adjustments	Collections and Credits	Uncollected Balance 6-30-12
2011-12	\$ -	\$ 126,550	\$ 124,352	\$ 2,198
2010-11	2,258	-	1,392	866
2009-10	755	-	140	615
2008-09	410	-	85	325
2007-08	419	-	90	329
2006-07	59	-	34	25
2005-06	88	-	36	52
2004-05	94	-	36	58
2003-04	321	-	56	265
2002-03	68	-	38	30
2001-02	-	-	-	-
	\$ 4,472	\$ 126,550	\$ 126,259	4,763

Less: Allowance for Uncollectible Accounts:

General Fund

500

Ad Valorem Taxes Receivable - Net

4,263

Reconciliation with Revenues

Ad Valorem Taxes - General Fund

126,583

Reconciling Items:

Interest and Penalties Collected

(325)

Taxes Released

1

Taxes Written Off

-

Total Collections and Credits

\$ 126,259

TOWN OF MINNESOTT BEACH, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

June 30, 2012

	Town-Wide		Total Levy		
	Property Valuation	Rate Per \$100	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property Taxed at Current Year's Rate	\$ 85,409,020	0.0015	\$ 128,114	\$ 119,547	\$ 8,567
Discoveries:					
Current Year Taxes	-	0.0015	-	-	-
Penalties	-		-	-	-
Abatements:					
Property Taxes - Current Year's Rate	(1,042,600)	0.0015	(1,564)	(220)	(1,344)
Total Property Valuations	<u>\$ 84,366,420</u>				
Net Levy			126,550	119,327	7,223
Uncollected Taxes at June 30, 2012			(2,198)	(1,583)	(615)
Current Year's Taxes Collected			<u>\$ 124,352</u>	<u>\$ 117,744</u>	<u>\$ 6,608</u>
Current Levy Collection Percentage			<u>98.26%</u>	<u>98.67%</u>	<u>91.49%</u>

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