

**Town of Caswell Beach
Caswell Beach, North Carolina
Financial Statements
June 30, 2012**

**Town of Caswell Beach, North Carolina
Financial Statements
June 30, 2012**

Mayor
Harry Q. Simmons Jr.

Town Council

Deborah G. Ahlers	Martha J. Hardy
John W. Bartholomew	George F. Kassler
Audrey L. Ellinger	

Town Administrator

Chad Hicks

Finance Officer

Alice M. Ervin

Town Clerk

Linda C. Bethune

Town of Caswell Beach, North Carolina
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Financial Section



CERTIFIED PUBLIC ACCOUNTANTS

Alan W. Thompson, CPA
R. Bryon Scott, CPA
Gregory S. Adams, CPA

Independent Auditors' Report

Offices:
Whiteville, NC
Elizabethtown, NC
Wilmington, NC

To the Honorable Mayor and
Members of the Town Council
Caswell 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 Caswell 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 Caswell Beach's management. Our responsibility is to express an opinion on these 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Caswell Beach, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund, the Accommodations Tax Fund, and the Beach Renourishment Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2012 on our consideration of the Town of Caswell Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress on Exhibit A 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 financials 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 generally 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 inquires, 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the Town of Caswell Beach's basic financial statements. The combining and individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of Federal and State awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is also not a required part of the basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules and the schedule of expenditures of Federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of Federal and State awards are stated in all material respects in relation to the basic financial statements as a whole.

Thompson, Price, Scott, Adams & Co, P.A.

Thompson, Price, Scott, Adams & Co, PA
November 7, 2012

Management Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Caswell Beach, we offer readers of the Town of Caswell Beach financial statements this narrative overview and analysis of the financial activities of the Town of Caswell 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.

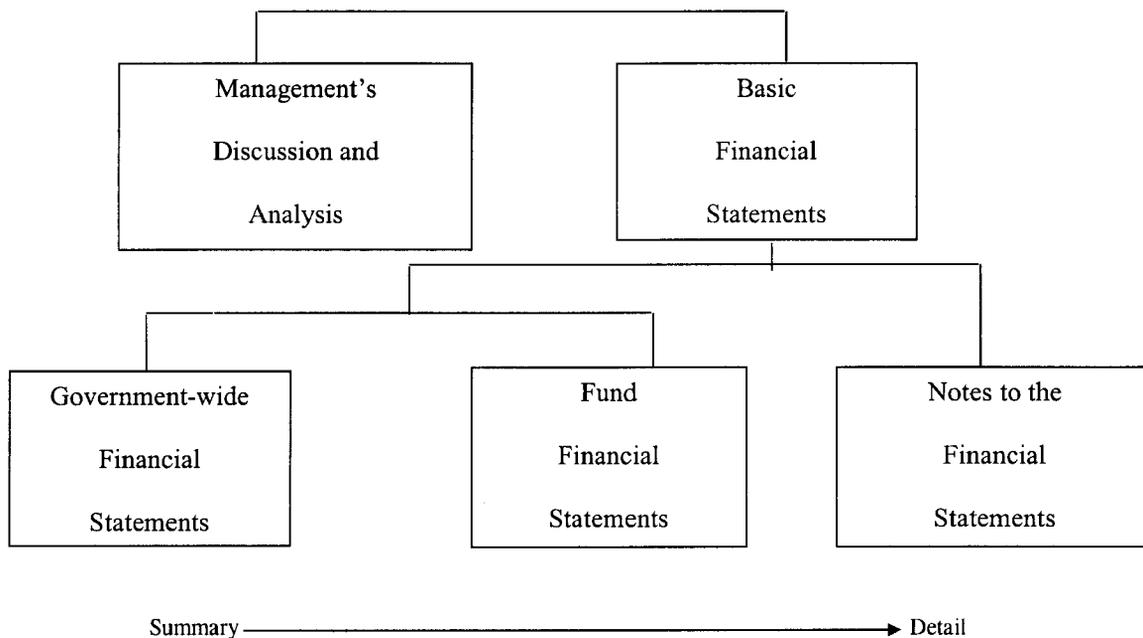
Financial Highlights

- The assets of the Town of Caswell Beach exceeded its liabilities at the close of the fiscal year by \$13,238,643.
- The government's total net assets increased by \$1,218,215 due to increases in both the governmental-type and business-type activities net assets.
- As of the close of the current fiscal year, the Town of Caswell Beach's governmental funds reported combined ending fund balances of \$2,249,669, an increase of \$19,599 in comparison with the prior year. Approximately 27 percent of this total amount, or \$609,468, is available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$608,118 or approximately 69 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Caswell Beach basic financial statements. The Town of Caswell Beach 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 Caswell Beach.

**Required Components of Annual Financial Report
Figure 1**



Basic Financial Statements

The first two statements (Exhibits 1 and 2) 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 3 through 8) 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 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 gage the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Caswell Beach. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town. The town does not have any component units that should be reported.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) 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 Caswell 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 Caswell Beach can be divided into two categories: governmental funds and proprietary 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 which is the General Fund. This fund focuses 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* which 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.

The Town of Caswell 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.

Proprietary Funds – Town of Caswell Beach has one proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Caswell Beach uses an enterprise fund to account for its water and sewer activity. This fund is the same as the functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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 follow directly behind the basic financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Caswell Beach.

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

Town of Caswell Beach Net Assets
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$2,375,623	\$2,352,932	\$1,203,593	\$1,021,646	\$3,579,216	\$3,374,578
Capital assets	4,974,048	4,949,002	6,289,565	5,203,056	11,263,613	10,152,058
Total assets	<u>7,349,671</u>	<u>7,301,934</u>	<u>7,493,158</u>	<u>6,224,702</u>	<u>14,842,829</u>	<u>13,526,636</u>
Long-term liabilities outstanding	\$ 30,065	\$ 49,272	\$1,352,907	\$1,250,947	\$1,382,972	\$1,300,219
Other liabilities	76,153	79,822	145,061	126,167	221,214	205,989
Total liabilities	<u>106,218</u>	<u>129,094</u>	<u>1,497,968</u>	<u>1,377,114</u>	<u>1,604,186</u>	<u>1,506,208</u>
Net assets:						
Invested in capital assets, net of related debt	4,974,048	4,949,002	4,864,565	3,877,109	9,838,613	8,826,111
Restricted	143,774	140,172	-	-	143,774	140,172
Unrestricted	2,125,631	2,083,666	1,130,625	970,479	3,256,256	3,054,145
Total net assets	<u>\$7,243,453</u>	<u>\$7,172,840</u>	<u>\$5,995,190</u>	<u>\$4,847,588</u>	<u>\$13,238,643</u>	<u>\$12,020,428</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 Caswell Beach exceeded liabilities by \$13,238,643 as of June 30, 2012. The Town's net assets increased by \$1,218,215 for the fiscal year ended June 30, 2012. However, the largest portion \$9,838,613 reflects the Town's investment in capital assets (e.g. land, construction in progress, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Caswell Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Caswell Beach's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Caswell Beach's net assets \$143,774 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,256,256 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.54%, which is higher than the statewide average of 97.63%.

Town of Caswell 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	\$ 37,458	\$ 38,472	\$ 847,114	\$ 313,849	\$ 884,572	\$ 352,321
Operating grants and contributions	25,934	72,396	-	-	25,934	72,396
Capital grants and contributions	-	-	1,255,039	2,642,885	1,255,039	2,642,885
General revenues:						
Property taxes	566,155	563,870	-	-	566,155	563,870
Other taxes	374,405	362,298	-	-	374,405	362,298
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Donated Capital Asset	-	57,581	-	-	-	57,581
Other	24,823	114,100	2,258	14,666	27,081	128,766
Total revenues	1,028,775	1,208,717	2,104,411	2,971,400	3,133,186	4,180,117
Expenses:						
General government	408,617	494,233	-	-	408,617	494,233
Public safety	356,216	326,076	-	-	356,216	326,076
Transportation	7,583	500	-	-	7,583	500
Economic Development	11,140	14,173	-	-	11,140	14,173
Environmental Protection	172,153	192,445	-	-	172,153	192,445
Culture and Recreation	2,453	6,344	-	-	2,453	6,344
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	956,809	217,866	956,809	217,866
Total expenses	958,162	1,033,771	956,809	217,866	1,914,971	1,251,637
Increase in net assets before transfers	70,613	174,946	1,147,602	2,753,534	1,218,215	2,928,480
Transfers	-	48,100	-	(48,100)	-	-
Increase (decrease) in net assets	70,613	223,046	1,147,602	2,705,434	1,218,215	2,928,480
Net assets, July 1	7,172,840	6,983,447	4,847,588	2,591,191	12,020,428	9,574,638
	7,243,453	7,206,493	5,995,190	5,296,625	13,238,643	12,503,118
Prior period adjustment	-	(33,653)	-	(449,037)	-	(482,690)
Net assets, June 30	\$7,243,453	\$7,172,840	\$5,995,190	\$4,847,588	\$13,238,643	\$12,020,428

Governmental Activities: Governmental activities increased the Town's net assets by \$70,613, thereby accounting for 6% of the total increase in the net assets of the Town of Caswell Beach. Key elements of this increase are as follows:

- The Town purchased several police vehicles and a vehicle for public works.
- The Town completed a stormwater Phase III project during the fiscal year.
- The Town added/enhanced some of the beach walkways/accessways.

Business-type activities: Business-type activities increased the Town of Caswell Beach's net assets by \$1,147,602, accounting for 94% of the total increase in the government's net assets. Key elements of this increase are as follows:

- The Town's sewer project was completed during the fiscal year.
- Service revenue increased due to the full year addition of the sewer department.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Caswell 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 Caswell Beach financing requirements.

The general fund is the chief operating fund of the Town of Caswell Beach. At the end of the current fiscal year, Town of Caswell Beach's fund balance available in the General Fund was \$608,118, while total fund balance reached \$648,207. The Town currently has an available fund balance of 69% of general fund expenditures, while total fund balance represents 74% of the same amount.

At June 30, 2012, the governmental funds of Town of Caswell Beach reported a combined fund balance of \$2,249,669, with a net increase in fund balance of \$19,599. Included in this change in fund balance are increases in fund balance in all governmental funds, with the exception of the General Fund.

General Fund Budgetary Highlights: During the fiscal year, the Town had few budgetary amendments. 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.

The budgetary amendments for FY 11-12 were due to necessary increases in appropriations in order to meet and maintain service needs of the Town's departments.

Proprietary Funds. The Town of Caswell Beach's proprietary fund provides 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 \$1,130,625. The total increase in net assets was \$1,147,602. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Caswell Beach's business-type activities.

Capital Assets and Debt Administration

Capital Assets. The Town of Caswell Beach investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$11,263,613 (net of accumulated depreciation). These assets include buildings, land, construction in progress, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Walkways/Accessways
- Stormwater Phase III Plan
- Police Vehicles & Public Works Vehicle
- Water and Sewer Capital Projects

Town of Caswell Beach Capital Assets
Figure 4
Town of Caswell Beach Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land, including Easements	\$3,563,803	\$ 3,563,803	\$ 33,029	\$ -	\$ 3,596,832	\$ 3,563,803
Construction in Progress	-	-	-	4,810,797	-	4,810,797
Buildings and Systems	905,528	928,056	-	-	905,528	928,056
Plant and Distribution Systems	-	-	6,256,536	392,259	6,256,536	392,259
Infrastructure and Other Improvements	321,168	302,520	-	-	321,168	302,520
Equipment	42,499	51,022	-	-	42,499	51,022
Vehicles and motorized equipment	141,050	103,601	-	-	141,050	103,601
Total	\$4,974,048	\$ 4,949,002	\$ 6,289,565	\$5,203,056	\$11,263,613	\$ 10,152,058

Additional information on the Town's capital assets can be found in note III.A.4. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2012, the Town of Caswell Beach had debt of \$1,425,000, which consisted of a Revolving Loan.

Economic Factors and Next Year's Budgets and Rates

The primary factors impacting the FY 2012-2013 budget are as follows:

- A decrease in local option sales tax revenue is expected and the budgeted revenue has been reduced.
- Ad Valorem taxes are expected to remain steady.
- Stormwater expenditures are expected to decrease drastically as the Phase III Stormwater Plan was completed in the current fiscal year.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Tax Rate. The town tax rate will be remain at \$.17 per \$100 of valuation.

Economic Outlook. The general outlook for the local economy is fairly stable. The tourism has not been affected that much in this area even though the overall economy has been in a slump.

Fund Balance. General Fund – Fund balance remains strong.

Revenue projections are responsibly conservative and strict budgetary control can limit spending below budgeted levels.

Requests for Information

This report is designed to provide an overview of the Town's 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 Director of Finance, Town of Caswell Beach, 1100 Caswell Beach Road, Caswell Beach, NC 28465. You can also call (910)-278-5471, visit our website www.caswellbeach.org or send an email to financeofficer@caswellbeach.org for more information.

Basic Financial Statements

Town of Caswell Beach, North Carolina
Statement of Net Assets
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 2,120,497	\$ 265,284	\$ 2,385,781
Restricted Cash and Cash Equivalents	103,685	810,570	914,255
Taxes Receivable (Net)	4,860	-	4,860
Accrued Interest Receivable on Taxes	298	-	298
Accrued Interest Receivable - Other	7,435	-	7,435
Accounts Receivable	96,663	126,449	223,112
Due From County	2,875	-	2,875
Due From Other Governments	37,214	-	37,214
Prepaid Items	2,096	1,290	3,386
Total Current Assets	2,375,623	1,203,593	3,579,216
Capital Assets:			
Land, Non-Depreciable Improvements, and Construction in Progress	3,563,803	33,029	3,596,832
Other Capital Assets, Net of Depreciation	1,410,245	6,256,536	7,666,781
Total Capital Assets	4,974,048	6,289,565	11,263,613
Total Assets	\$ 7,349,671	\$ 7,493,158	\$ 14,842,829
Liabilities			
Current Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 57,492	\$ 67,957	\$ 125,449
Unearned Revenues	4,060	-	4,060
Customer Deposits	-	1,135	1,135
Clean-up Bonds	8,671	-	8,671
Current Portion of Long-Term Liabilities	5,930	75,969	81,899
Accounts Payable from Restricted Assets	-	-	-
Total Current Liabilities	76,153	145,061	221,214
Long-Term Liabilities:			
Due in More Than One Year	30,065	1,352,907	1,382,972
Total Liabilities	106,218	1,497,968	1,604,186
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,974,048	4,864,565	9,838,613
Restricted For:			
Stabilization by State Statute	42,185	-	42,185
Other Functions	103,685	-	103,685
Unrestricted	2,123,535	1,130,625	3,254,160
Total Net Assets	\$ 7,243,453	\$ 5,995,190	\$ 13,238,643

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental Activities:							
General Government	\$ 408,617	\$ 4,378	\$ 17,638	\$ -	\$ (386,601)	\$ -	\$ (386,601)
Cultural and Recreation	2,453	-	-	-	(2,453)	-	(2,453)
Public Safety	356,216	33,080	-	-	(323,136)	-	(323,136)
Economical and Physical Development	11,140	-	-	-	(11,140)	-	(11,140)
Environmental Protection	172,153	-	-	-	(172,153)	-	(172,153)
Transportation	7,583	-	8,296	-	713	-	713
Interest Expense	-	-	-	-	-	-	-
Total Governmental Activities	958,162	37,458	25,934	-	(894,770)	-	(894,770)
Business-Type Activities:							
Water and Sewer Services	956,809	847,114	-	1,255,039	-	1,145,344	1,145,344
Total Business-Type Activities	956,809	847,114	-	1,255,039	-	1,145,344	1,145,344
Total Primary Government	\$ 1,914,971	\$ 884,572	\$ 25,934	\$ 1,255,039	(894,770)	1,145,344	250,574
General Revenues:							
Taxes:							
Property Taxes, Levied For General Purpose					566,155	-	566,155
Other Taxes					374,405	-	374,405
Unrestricted Investment Earnings					16,291	1,398	17,689
Miscellaneous					8,532	860	9,392
Donated Assets					-	-	-
Transfers							
Total General Revenues and Transfers					965,383	2,258	967,641
Change in Net Assets					70,613	1,147,602	1,218,215
Net Assets, Beginning					7,172,840	4,847,588	12,020,428
Prior Period Adjustment					-	-	-
Net Assets, Ending					\$ 7,243,453	\$ 5,995,190	\$ 13,238,643

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2012

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Beach Renourishment Fund	Accommodations Tax Fund		
ASSETS					
Cash and Cash Equivalents	\$ 655,694	\$ 1,441,251	\$ 22,202	\$ 1,350	\$ 2,120,497
Restricted Cash	-	-	-	103,685	103,685
Receivables, Net:					
Taxes	4,860	-	-	-	4,860
Accounts	50,573	15,363	30,727	-	96,663
Interest	-	7,435	-	-	7,435
Due From County	2,875	-	-	-	2,875
Due From Other Governments	37,214	-	-	-	37,214
Prepaid Expenses	2,096	-	-	-	2,096
Total Assets	<u>\$ 753,312</u>	<u>\$ 1,464,049</u>	<u>\$ 52,929</u>	<u>\$ 105,035</u>	<u>\$ 2,375,325</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 36,941	\$ 12,985	\$ 7,566	\$ -	\$ 57,492
Clean-up Bonds	8,671	-	-	-	8,671
Deferred Revenue	55,433	-	-	-	55,433
Unearned Revenue	4,060	-	-	-	4,060
Total Liabilities	<u>105,105</u>	<u>12,985</u>	<u>7,566</u>	<u>-</u>	<u>125,656</u>
Fund Balances:					
Restricted					
Stabilization by State Statute	42,185	-	-	-	42,185
Streets	-	-	-	103,685	103,685
Committed					
Community Projects and Future Capital Projects	-	-	-	1,350	1,350
Assigned					
Beach Renourishment	-	1,451,064	-	-	1,451,064
Tourism	-	-	45,363	-	45,363
Unassigned	606,022	-	-	-	606,022
Total Fund Balances	<u>648,207</u>	<u>1,451,064</u>	<u>45,363</u>	<u>105,035</u>	<u>2,249,669</u>
Total Liabilities and Fund Balances	<u>\$ 753,312</u>	<u>\$ 1,464,049</u>	<u>\$ 52,929</u>	<u>\$ 105,035</u>	<u>\$ 2,375,325</u>

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,974,048
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.	298
Liabilities for earned but deferred revenues in fund statements.	55,433
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.	<u>(35,995)</u>
Net assets of governmental activities	<u>\$ 7,243,453</u>

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Beach Renourishment Fund	Accommodations Tax Fund		
REVENUES					
Ad Valorem Taxes	\$ 565,648	\$ -	\$ -	\$ -	\$ 565,648
Other Taxes and Licenses	4,378	80,924	161,848	-	247,150
Unrestricted Intergovernmental	131,359	-	-	-	131,359
Restricted Intergovernmental	17,912	-	-	8,296	26,208
Permits and Fees	33,080	-	-	-	33,080
Investment Earnings	4,591	11,190	163	347	16,291
Other Revenue	8,532	-	-	-	8,532
Total Revenues	765,500	92,114	162,011	8,643	1,028,268
EXPENDITURES					
Current:					
General Government	405,237	-	-	-	405,237
Public Safety	391,448	-	-	-	391,448
Environmental Protection	53,273	89,636	39,851	-	182,760
Economic and Physical Development	10,420	-	-	-	10,420
Cultural and Recreational	17,004	-	-	-	17,004
Transportation	-	-	-	1,800	1,800
Debt Service:					
Principal	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-
Total Expenditures	877,382	89,636	39,851	1,800	1,008,669
Excess (Deficiency) of Revenues Over Expenditures	(111,882)	2,478	122,160	6,843	19,599
OTHER FINANCING SOURCES (USES)					
Transfers From/(To) Other Funds	108,000	-	(108,000)	-	-
Total Other Financing Sources (Uses)	108,000	-	(108,000)	-	-
Net Change in Fund Balance	(3,882)	2,478	14,160	6,843	19,599
Fund balances, beginning	652,089	1,448,586	31,203	98,192	2,230,070
Prior period adjustments	-	-	-	-	-
Fund balances, beginning as restated	652,089	1,448,586	31,203	98,192	2,230,070
Fund balances, ending	\$ 648,207	\$ 1,451,064	\$ 45,363	\$ 105,035	\$ 2,249,669

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
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	\$	19,599
Change in fund balance due to change in reserve for inventory		

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period

Capital Outlay expenditures which were capitalized	78,946	
Depreciation expense for governmental assets	<u>(53,900)</u>	25,046

The issuance of long-term debt (e.g. bonds, leases) 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, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.

New long-term debt issued	-	
Principal payments on long-term debt	<u>-</u>	-

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

Change in deferred revenue for tax revenues		345
Changes in interest receivable on taxes		162

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Net pension obligation		445
Compensated absences & related liabilities		<u>25,016</u>

Total changes in net assets of governmental activities	\$	<u><u>70,613</u></u>
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Town of Caswell Beach, North Carolina
General and Major Special Revenue Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	General Fund				Special Revenue-Beach Renourishment Fund				Special Revenue-Accommodations Tax Fund			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:												
Ad Valorem Taxes	\$ 559,192	\$ 559,192	\$ 565,648	\$ 6,456	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Taxes and Licenses	5,000	5,000	4,378	(622)	72,000	79,800	80,924	1,124	144,000	145,000	161,848	16,848
Unrestricted Intergovernmental	136,629	136,629	131,359	(5,270)	-	-	-	-	-	-	-	-
Restricted Intergovernmental	-	-	17,912	17,912	-	-	-	-	-	-	-	-
Permits and Fees	19,000	19,000	33,080	14,080	-	-	-	-	-	-	-	-
Investment Earnings	7,500	7,500	4,591	(2,909)	4,000	4,000	11,190	7,190	-	-	163	163
Other Revenue	9,000	9,000	8,532	(468)	-	-	-	-	-	-	-	-
Total Revenues	736,321	736,321	765,500	29,179	76,000	83,800	92,114	8,314	144,000	145,000	162,011	17,011
Expenditures:												
Current:												
General Government	486,421	444,421	405,237	39,184	-	-	-	-	36,000	37,000	39,851	(2,851)
Public Safety	353,500	373,500	391,448	(17,948)	-	-	-	-	-	-	-	-
Environmental Protection	34,500	52,500	53,273	(773)	-	-	-	-	-	-	-	-
Economic and Physical Development	12,100	12,100	10,420	1,680	-	-	-	-	-	-	-	-
Cultural and Recreational	12,700	16,700	17,004	(304)	19,800	83,800	89,636	(5,836)	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service:												
Principal Retirement	-	-	-	-	-	-	-	-	-	-	-	-
Interest and Other Charges	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditures	899,221	899,221	877,382	21,839	19,800	83,800	89,636	(5,836)	36,000	37,000	39,851	(2,851)
Revenues Over (Under) Expenditures	(162,900)	(162,900)	(111,882)	51,018	56,200	-	2,478	2,478	108,000	108,000	122,160	14,160
Other Financing Sources (Uses):												
Operating Transfers In (Out) - Net	162,900	162,900	108,000	(54,900)	(56,200)	-	-	-	(108,000)	(108,000)	(108,000)	-
Fund Balance Appropriated	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	162,900	162,900	108,000	(54,900)	(56,200)	-	-	-	(108,000)	(108,000)	(108,000)	-
Net Change in Fund Balance	\$ -	\$ -	\$ (3,882)	\$ (3,882)	\$ -	\$ -	\$ 2,478	\$ 2,478	\$ -	\$ -	\$ 14,160	\$ 14,160
Fund balances beginning as previously reported			652,089				1,448,586				31,203	
Prior period adjustments												
Fund balances, beginning as restated			652,089				1,448,586				31,203	
Fund balances, ending			\$ 648,207				\$ 1,451,064				\$ 45,363	

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Statement of Fund Net Assets
Proprietary Funds
June 30, 2012

		Major Enterprise <u>Fund</u> Water and Sewer Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$	265,284
Restricted Cash and Cash Equivalents		810,570
Prepaid Items		1,290
Accounts Receivable (Net) - Billed		113,441
Accounts Receivable - Other		<u>13,008</u>
Total		<u>1,203,593</u>
Noncurrent Assets:		
Capital Assets:		
Land, Non-Depreciable Improvements, Construction in Progress		33,029
Other Capital Assets, Net of Depreciation		<u>6,256,536</u>
Capital Assets (Net)		<u>6,289,565</u>
Total Noncurrent Assets		<u>6,289,565</u>
Total Assets	\$	<u><u>7,493,158</u></u>
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$	67,957
Customer Deposits		1,135
Revolving Loan Payable		75,000
Accounts Payable from Restricted Assets		-
Compensated Absences - Current		<u>969</u>
Total Current Liabilities		<u>145,061</u>
Noncurrent Liabilities:		
Compensated Absences - Noncurrent		2,907
Revolving Loan Payable - Noncurrent		<u>1,350,000</u>
Total Noncurrent Liabilities		<u>1,352,907</u>
Total Liabilities		<u>1,497,968</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt		4,864,565
Unrestricted		<u>1,130,625</u>
Total Net Assets of Business - Type Activities	\$	<u><u>5,995,190</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Major Enterprise Fund
	Water and Sewer Fund
Operating Revenues	
Water and Sewer Charges	\$ 835,729
Water and Sewer Taps	2,880
Penalties, Permits, and Reconnect	8,505
Total Operating Revenues	847,114
Operating Expenses	
Administration	89,405
Water and Sewer Operations	443,294
Depreciation	131,564
Total Operating Expense	664,263
Operating Income (Loss)	182,851
Nonoperating Revenues (Expenses)	
Interest on Investments	1,398
Sales Tax Refund	-
Capital Recovery	860
Miscellaneous	-
Capital Charge - Oak Island	(292,546)
Total Nonoperating Revenues (Expenses)	(290,288)
Income (Loss) Before Transfers and Contributions	(107,437)
Transfers In (Out)	-
Capital Contributions	1,255,039
Change in Net Assets	1,147,602
Total net assets, beginning	4,847,588
Prior Period Adjustment	-
Total net assets, ending	\$ 5,995,190

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Major Enterprise Fund <u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash Received From Customers	\$ 837,461
Cash Paid for Goods and Services	(343,206)
Cash Paid to Employees for Services	(168,882)
Customer Deposits Received (Returned)	(100)
Net Cash Provided by Operating Activities	<u>325,273</u>
Cash Flows From Noncapital Financing Activities:	
Transfers From (to) Other Funds	<u>-</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>-</u>
Cash Flows From Capital Related Financing Activities:	
Acquisition and Construction of Capital Assets	(1,218,073)
Capital Contributions	1,255,039
Debt Proceeds	174,053
Principal paid on Revolving Loan	(75,000)
Capital Charge - Oak Island	(292,546)
Miscellaneous	860
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(155,667)</u>
Cash Flows From Investing Activities:	
Interest on Investments and Assessments	<u>1,398</u>
Net Increase (Decrease) in Cash and Cash Equivalents	171,004
Cash and Cash Equivalents:	
Balances, beginning	<u>904,850</u>
Balances, ending	<u>\$ 1,075,854</u>

The notes to the financial statements are an integral part of this statement.

Town of Caswell Beach, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

	Major Enterprise Fund <hr/> Water and Sewer Fund
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income(Loss)	\$ <u>182,851</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	131,564
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(9,653)
(Increase) Decrease in Prepaid Items	(1,290)
Increase (Decrease) in Accounts Payable & Accrued Liabilities	18,025
Increase (Decrease) in Compensated Absences	3,876
Increase (Decrease) in Deposits	(100)
Total Adjustments	<u>142,422</u>
Net Cash Provided by Operating Activities	\$ <u><u>325,273</u></u>

Notes to Financial Statements

Town of Caswell 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 Caswell 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 Caswell 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. The Town does not have any component units that should be presented.

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

The Town reports the following major governmental funds:

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

Accommodations Tax Fund. This fund is used to account for occupancy taxes collected which are used to promote tourism.

Beach Renourishment Fund. This fund is used to provide beach renourishment.

The Town reports the following non-major governmental funds:

Neighbors Fund. This fund is used to account for various community projects.

Capital Reserve Fund. This fund is used to accumulate resources for future capital projects and purchases.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Town enterprise fund is charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 Caswell 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 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.

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, the Beach Renourishment Special Revenue Fund, the Accommodations Tax Special Revenue Fund, all other non-major Special Revenue Funds, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for the Enterprise Capital Project Fund. The enterprise fund project is consolidated with its 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 project level for the multi-year funds. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the Town before any water services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it 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.

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 established by analyzing the percentage of receivables that were written off in prior years.

6. Inventories

The Town currently has no funds with inventory.

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. In July 2003, the Town formally accepted a capitalization policy that defines capital assets as assets with an individual cost of \$5,000 or more. 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.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 Years
Other Improvements	25 Years
Equipment	10 Years
Furniture and Fixtures	10 Years
Computer Equipment	3 Years
Vehicles	6 Years
Miscellaneous	3 Years

8. 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.

9. Compensated Absences

The vacation policy of the Town provides that administrative employees earn vacation leave at the rate of one day per month during the first four years of employment. For years five through nine of employment, employees earn one and one quarter days per month. For years ten through fourteen of employment, employees earn one and a half days per month. After fifteen years of employment, employees earn vacation leave at the rate of twenty days per year. Existing police employees earn vacation leave at a per shift rate, or twelve hours per month. New hires earn vacation leave on a prorated basis, that is, vacation is based on their shift / work week. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

10. Net Assets/Fund Balances

Net Assets

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

Fund Balances

In the governmental fund financial statements, fund balance is comprised 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 Town of Caswell Beach's governing body. Any changes or removal of specific purpose requires majority action by the governing body.

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

Assigned for Beach Renourishment and Dunes Protection- portion of fund balance available for appropriation but legally segregated for expenditures that are for beach renourishment and protection.

Assigned for Tourism - portion of fund balance available for appropriation but legally segregated for expenditures that are for tourism purposes.

Assigned for 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. The governing body approves the appropriation.

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

II. Stewardship, Compliance, and Accountability

A. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, the expenditures made in the Town's Beach Renourishment Fund exceeded the authorized appropriations made by the governing board for beach renourishment activities by \$5,836. This over-expenditure occurred because of additional legal fees expended on a sand management issue. The Town's Accommodations Tax Fund also exceeded the authorized appropriations made by the governing board for its accommodations tax expenditures by \$2,851. This over-expenditure occurred because actual tax revenues were higher than budgeted, which therefore, resulted in higher than expected accommodations tax expenditures. The Town's Capital Reserve Fund exceeded the authorized appropriations made by the governing board for street maintenance and expenditures by \$1,800. This over-expenditure occurred because there were street maintenance expenditures and no related budgeted expenditures existed. Management and the Board will more closely review the budget reports to ensure compliance in future years.

III. 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 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, 2012, the Town's deposits had a carrying amount of \$3,298,816 and a bank balance of \$3,310,235. Of the bank balance, \$798,023 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2012, the Town's petty cash fund totaled \$300.

2. Investments

At June 30, 2012, the Town of Caswell Beach had \$920 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

Accounts Receivable

The amounts presented in the Statement of Net Assets are shown below:

	Governmental Activities	Business-Type Activities
Charges for Services Receivable	\$ -	\$ 113,441
Miscellaneous Accounts Receivable	-	13,008
Account Receivable - Stormwater	50,573	-
Occupancy Tax Receivable	46,090	-
Total Accounts Receivable	<u>\$ 96,663</u>	<u>\$ 126,449</u>

Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets for the year ended June 30, 2012 is net of the following allowances for doubtful accounts:

General Fund:

Taxes Receivable \$ 108

4. Capital Assets

Primary Government

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	\$ 3,563,803	\$ -	\$ -	\$ 3,563,803
Total capital assets not being depreciated	<u>3,563,803</u>	<u>-</u>	<u>-</u>	<u>3,563,803</u>
Capital assets being depreciated:				
Buildings	1,126,419	-	-	1,126,419
Other Improvements	263,239	29,198	-	292,437
Infrastructure	121,400	-	-	121,400
Equipment	100,597	-	-	100,597
Vehicles and motorized equipment	179,735	49,748	7,937	221,546
Total capital assets being depreciated	<u>1,791,390</u>	<u>78,946</u>	<u>7,937</u>	<u>1,862,399</u>
Less accumulated depreciation for:				
Buildings	198,363	22,528	-	220,891
Other Improvements	9,279	5,694	-	14,973
Infrastructure	72,840	4,856	-	77,696
Equipment	49,575	8,523	-	58,098
Vehicles and motorized equipment	76,134	12,299	7,937	80,496
Total accumulated depreciation	<u>406,191</u>	<u>\$ 53,900</u>	<u>\$ 7,937</u>	<u>452,154</u>
Total capital assets being depreciated, net	<u>1,385,199</u>			<u>1,410,245</u>
Governmental activity capital assets, net	<u>\$ 4,949,002</u>			<u>\$ 4,974,048</u>

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

General Government	\$ 37,707
Public Safety	5,650
Transportation	5,783
Environmental Protection/Stormwater	3,893
Parks and Recreation	147
Economic and Physical Development	720
Total Depreciation Expense	<u>\$ 53,900</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water Fund				
Capital assets not being depreciated:				
Construction in Process	\$ 4,777,768	\$ 1,218,073	\$ 5,995,841	\$ -
Easements	33,029	-		33,029
Total capital assets not being depreciated	<u>4,810,797</u>	<u>1,218,073</u>	<u>5,995,841</u>	<u>33,029</u>
Capital assets being depreciated:				
Plant and distribution systems	595,053	5,995,841	-	6,590,894
Total capital assets being depreciated	<u>595,053</u>	<u>5,995,841</u>	<u>-</u>	<u>6,590,894</u>
Less accumulated depreciation for:				
Plant and distribution systems	202,794	131,564	-	334,358
Total accumulated depreciation	<u>202,794</u>	<u>\$ 131,564</u>	<u>\$ -</u>	<u>334,358</u>
Total capital assets being depreciated, net	<u>392,259</u>			<u>6,256,536</u>
Water fund capital assets, net	<u>5,203,056</u>			<u>6,289,565</u>
Business-type activities capital assets, net	<u>\$ 5,203,056</u>			<u>\$ 6,289,565</u>

Construction Commitments

The government did not have any active construction projects as of June 30, 2012.

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Caswell 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 9.84% and 10.01%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Caswell 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, 2012, 2011, and 2010 were \$44,967, \$36,431, and \$30,043, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The Town of Caswell 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. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>4</u>
Total	<u><u>4</u></u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

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

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

3. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The Town has not obtained an actuarial valuation for the plan since 1997 because its required contributions are considered immaterial.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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, 2012 were \$10,539, which consisted of \$8,947 from the Town and \$1,592 from the law enforcement officers.

d. 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 – The Town has adopted a policy that states that it is 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, 2012 were \$17,093, which consisted of \$14,215 from the Town and \$2,878 from the employees.

2. Other Employment Benefits

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

3. 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), less penalties	\$ 4,860	\$ -
Stormwater Loan (General Fund)	50,573	-
Prepaid Rollback Fees (General Fund)	-	4,060
Total Deferred Revenues	<u>\$ 55,433</u>	<u>\$ 4,060</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in a self-funded risk-financing pool 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 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 \$1,000,000 up to statutory limits for workers’ compensation.

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 is considered to be in a “X” flood plain and carries commercial flood insurance through The Hartford for a total coverage of \$364,700. This includes both structure and contents coverage.

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

5. Claims, Judgments and Contingent Liabilities

As of the date of the audit report, there were no complaints or lawsuits against the Town.

6. Long-Term Obligations

a. General Obligation Indebtedness

There were no general obligation bonds financed by the governmental funds at June 30, 2012.

At June 30, 2012, the Town of Caswell Beach had no bonds authorized or unissued and had a legal debt margin of \$26,591,294.

b. Revolving Loan

In September 2009, the Town was approved for a \$3,000,000 Wastewater - American Recovery and Reinvestment Act of 2009 (AARA) Revolving Loan. One half of the principal amount will be forgiven and the interest rate for the loan is zero percent. The term of the loan is scheduled for 20 years with annual principal payments of \$75,000 due May 1st of each year. As of June 30, 2012, the Town had drawn a total of \$3,000,000, half of which is forgiven. The amount due at June 30, 2012 was \$1,425,000.

Current annual debt service requirements to maturity for the revolving loan is as follows:

Year Ending June 30	Principal
2013	\$ 75,000
2014	75,000
2015	75,000
2016	75,000
2017	75,000
2018-2022	375,000
2023-2027	375,000
2028-2032	300,000
	<u>\$ 1,425,000</u>

c. Changes in Long-Term Liabilities

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 41,663		\$ 21,487	\$ 20,176	\$ 5,044
Accrued payroll expenses on compensated absences	7,071		3,529	3,542	886
Net pension obligation	12,722	-	445	12,277	-
Governmental activity long-term liabilities	<u>\$ 61,456</u>	<u>\$ -</u>	<u>\$ 25,461</u>	<u>\$ 35,995</u>	<u>\$ 5,930</u>

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Business-type Activities:					
Water and Sewer Fund					
Compensated absences	\$ -	\$ 3,299	\$ -	\$ 3,299	\$ 825
Accrued payroll expenses on compensated absences	-	577	-	577	144
Revolving Loan	1,325,947	174,053	75,000	1,425,000	75,000
Business-type activities long-term liabilities	<u>\$1,325,947</u>	<u>\$ 177,929</u>	<u>\$ 75,000</u>	<u>\$ 1,428,876</u>	<u>\$ 75,969</u>

Compensated absences for governmental activities have typically have been liquidated in the General Fund.

C. Interfund Balances and Activity

Balances Due to/from Other Funds

There were no balances due to/from other funds at June 30, 2012.

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2012, consist of the following:

From the Accommodations Tax Fund to the General Fund	<u>\$ 108,000</u>
Total	<u><u>\$ 108,000</u></u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided for matching funds for various grant programs. All of the transfers were for general operating reasons, with the exception of the transfers made from the General Fund to the Capital Reserve Fund. Monies were transferred to fund future Powell Bill expenditures.

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	\$648,207
Less:	
Stabilization by State Statute	40,089
Streets - Powell Bill	-
Appropriated Fund Balance in 2013 Budget	-
Working Capital / Fund Balance Policy	-
Remaining Fund Balance	608,118

IV. Jointly Governed Organization

The Town, in conjunction with twenty or more 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 \$386 to the Council during the fiscal year ended June 30, 2012.

The Town, in conjunction 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 \$12,000 to the Consortium during the fiscal year ended June 30, 2012.

The Town has entered into an agreement with the Town of Oak Island regarding the treatment and disposal of effluent produced and collected by the Town of Caswell Beach. The Town's six inch wastewater transmission force main will connect to the Oak Island Wastewater system transmission line, where the Town's effluent shall be transferred from the Caswell Beach system to the Oak Island system for treatment and disposal. As a result, the Town has agreed to a monthly cost that has two components: a base rate and a wholesale usage rate per one thousand gallons. The base rate (capital charge) will be determined using a capacity ratio, which is the proportionate percentage of the costs of common facilities (capital or debt service). The capacity ratio is determined by the current capacity need for Caswell Beach as the numerator and the current Oak Island capacity as the denominator. This amount could vary from year to year. The wholesale usage rate shall be determined using a numerator, which is total operations and maintenance costs, divided by a denominator, which is the sum of Caswell Beach's estimated annual flow and Oak Island's estimated annual flow. The product of that computation is then multiplied by 1,000 to provide the wholesale usage rate expressed per 1,000 gallons. The rate is then applied on a monthly basis to the actual metered wastewater of Caswell Beach. For the year ended June 30, 2012, the Town of Caswell Beach paid the Town of Oak Island a base rate (capital charge) in the amount of \$292,546.

V. 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.

Required Supplementary Financial Data

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

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/97	-	12,277	12,277	-	99,890	-
12/31/98	-	N/A	N/A	N/A	N/A	N/A
12/31/99	-	N/A	N/A	N/A	N/A	N/A
12/31/00	-	N/A	N/A	N/A	N/A	N/A
12/31/01	-	N/A	N/A	N/A	N/A	N/A
12/31/02	-	N/A	N/A	N/A	N/A	N/A
12/31/03	-	N/A	N/A	N/A	N/A	N/A
12/31/04	-	N/A	N/A	N/A	N/A	N/A
12/31/05	-	N/A	N/A	N/A	N/A	N/A
12/31/06	-	N/A	N/A	N/A	N/A	N/A
12/31/07	-	N/A	N/A	N/A	N/A	N/A
12/31/08	-	N/A	N/A	N/A	N/A	N/A
12/31/09	-	N/A	N/A	N/A	N/A	N/A
12/31/10	-	N/A	N/A	N/A	N/A	N/A
12/31/11	-	N/A	N/A	N/A	N/A	N/A

Analysis of the dollar amounts of net assets available for benefits, pension obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provided one indication of funding status in a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employees' Retirement System, (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension obligation as a percentage of the annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulated sufficient assets to pay benefits due. Generally, the smaller this percentage, the stronger the PERS.

The Town has not elected to fund the Law Enforcement Officers' Special Separation Allowance in each of the last two years.

Individual Fund Statements and Schedules

Town of Caswell Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Ad Valorem Taxes			
Current Year	\$ 558,192	\$ 561,993	\$ 3,801
Prior Year	-	3,024	3,024
Penalties and Interest	1,000	631	(369)
Total	<u>559,192</u>	<u>565,648</u>	<u>6,456</u>
Other Taxes and Licenses			
Privilege Licenses	5,000	4,378	(622)
Total	<u>5,000</u>	<u>4,378</u>	<u>(622)</u>
Unrestricted Intergovernmental			
Local Option Sales Tax	85,329	83,836	(1,493)
Franchise Tax	45,000	44,462	(538)
Beer and Wine Tax	1,000	1,737	737
Cable TV Franchise Tax	1,300	1,324	24
Tax Refunds	4,000	-	(4,000)
Total	<u>136,629</u>	<u>131,359</u>	<u>(5,270)</u>
Restricted Intergovernmental			
Powell Bill Allocation	-	-	-
Solid Waste Disposal Tax	-	274	274
Mosquito Grant	-	2,482	2,482
FEMA Grant	-	15,156	15,156
Total	<u>-</u>	<u>17,912</u>	<u>17,912</u>
Licenses and Permits			
Building Permits and Inspection Fees	19,000	33,080	14,080
Total	<u>19,000</u>	<u>33,080</u>	<u>14,080</u>
Investment Earnings	7,500	4,591	(2,909)
Other Revenues			
Miscellaneous Revenues	9,000	8,532	(468)
Total	<u>9,000</u>	<u>8,532</u>	<u>(468)</u>
Total Revenues	<u>736,321</u>	<u>765,500</u>	<u>29,179</u>

Town of Caswell Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Expenditures			
General Government			
Governing Board			
Salaries and Employee Benefits	16,500	20,111	(3,611)
Insurance	6,700	4,143	2,557
Travel & Training	6,700	7,654	(954)
Other Operating Expenses	20,220	19,600	620
Total Governing Board	<u>50,120</u>	<u>51,508</u>	<u>(1,388)</u>
Administration			
Salaries and Employee Benefits	246,300	213,478	32,822
Bank Charges	500	306	194
Dues & Donations	401	310	91
Collection Fees	4,200	4,166	34
Insurance	11,500	6,675	4,825
Municipal Codification	2,000	2,841	(841)
Office Supplies	7,000	7,514	(514)
Professional Services	13,000	10,042	2,958
Travel/Training/Schools	4,000	4,975	(975)
Other Operating Expenditures	-	3,129	(3,129)
Total Administration	<u>288,901</u>	<u>253,436</u>	<u>35,465</u>
Communications			
Salaries and Employee Benefits	-	-	-
Other Operating Expenditures	43,800	31,454	12,346
Capital Outlay	-	-	-
	<u>43,800</u>	<u>31,454</u>	<u>12,346</u>
Public Works			
Salaries and Employee Benefits	28,600	22,350	6,250
Insurance	2,500	2,240	260
Other Operating Expenses	28,500	34,705	(6,205)
Capital Outlay	2,000	9,544	(7,544)
Total Public Works	<u>61,600</u>	<u>68,839</u>	<u>(7,239)</u>
Total General Government	<u>444,421</u>	<u>405,237</u>	<u>39,184</u>

Town of Caswell Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Public Safety			
Police Department			
Salaries and Employee Benefits	293,900	276,376	17,524
Insurance	15,000	8,932	6,068
Other Operating Expenditures	35,275	31,590	3,685
Capital Outlay	-	40,204	(40,204)
Total	<u>344,175</u>	<u>357,102</u>	<u>(12,927)</u>
Inspections			
Salaries and Employee Benefits	-	-	-
Building Inspector Contract	26,000	32,537	(6,537)
Other Operating Expenditures	3,325	1,809	1,516
Total	<u>29,325</u>	<u>34,346</u>	<u>(5,021)</u>
Total Public Safety	<u>373,500</u>	<u>391,448</u>	<u>(17,948)</u>
Environmental Protection			
Solid Waste			
Recycling	19,900	20,204	(304)
Landfill Tipping Fees	1,300	2,145	(845)
Summer Pickup	9,500	9,723	(223)
Cardboard Bin	800	760	40
Stormwater			
Stormwater	6,000	5,941	59
Capital Outlay	15,000	14,500	500
Total Environmental Protection	<u>52,500</u>	<u>53,273</u>	<u>(773)</u>
Economic and Physical Development			
Beach Maintenance	12,100	10,420	1,680
Capital Outlay	-	-	-
Total Economic and Physical Development	<u>12,100</u>	<u>10,420</u>	<u>1,680</u>
Parks and Recreation			
Park Maintenance	4,700	2,306	2,394
Capital Outlay	12,000	14,698	(2,698)
Total Parks and Recreation	<u>16,700</u>	<u>17,004</u>	<u>(304)</u>
Payments on Long-Term Debt			
Principal	-	-	-
Interest	-	-	-
Total Expenditures	<u>899,221</u>	<u>877,382</u>	<u>21,839</u>

Town of Caswell Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues Over (Under) Expenditures	(162,900)	(111,882)	51,018
Other Financing Sources (Uses):			
Appropriated Fund Balance	-	-	-
Transfer from Special Revenue Fund	108,000	108,000	-
Transfer from Water Fund Fund	48,100	-	(48,100)
Transfer from Powell Bill	-	-	-
Transfer from Beach Fund	6,800	-	(6,800)
Transfer to Capital Reserve Fund	-	-	-
Transfer to Wastewater Capital Project	-	-	-
Total Other Financing Sources (Uses)	162,900	108,000	(54,900)
Net change in fund balance	\$ -	(3,882)	\$ (3,882)
Fund balances, beginning as previously reported		652,089	
Prior period adjustment		-	
Fund balances, beginning as restated		652,089	
Fund balances, ending		\$ 648,207	

Town of Caswell Beach, North Carolina
Beach Renourishment Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Accommodations Tax	\$ 79,800	\$ 80,924	\$ 1,124
Interest Earned	4,000	11,190	7,190
Total Revenues	<u>83,800</u>	<u>92,114</u>	<u>8,314</u>
Expenditures			
Beach Renourishment	83,800	89,636	(5,836)
Total Expenditures	<u>83,800</u>	<u>89,636</u>	<u>(5,836)</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>2,478</u>	<u>2,478</u>
Other Financing Sources (Uses)			
Appropriated Fund Balance	-	-	-
Transfer From (To) General Fund	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>2,478</u>	<u>\$ 2,478</u>
Fund balance, beginning as previously reported		1,448,586	
Prior period adjustment		-	
Fund balance, beginning as restated		<u>1,448,586</u>	
Fund balance, ending		<u>\$ 1,451,064</u>	

Town of Caswell Beach, North Carolina
Accommodations Tax Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Accommodations Tax	\$ 145,000	\$ 161,848	\$ 16,848
Interest Earned	-	163	163
Total Revenues	<u>145,000</u>	<u>162,011</u>	<u>17,011</u>
Expenditures:			
Brunswick County Accommodations Tax	<u>37,000</u>	<u>39,851</u>	<u>(2,851)</u>
Total Expenditures	<u>37,000</u>	<u>39,851</u>	<u>(2,851)</u>
Revenue Over (Under) Expenditures	<u>108,000</u>	<u>122,160</u>	<u>14,160</u>
Other Financing Sources (Uses):			
Transfer to General Fund	(108,000)	(108,000)	-
Transfer From Other Funds	-	-	-
Total Other Financing Sources (Uses)	<u>(108,000)</u>	<u>(108,000)</u>	<u>-</u>
Net change in fund balance	\$ <u>-</u>	14,160	\$ <u>14,160</u>
Fund balance, beginning		31,203	
Fund balance, ending		<u>\$ 45,363</u>	

Town of Caswell Beach, North Carolina
Non-Major Governmental Funds
Combining Balance Sheet
For the Fiscal Year Ended June 30, 2012

Assets	<u>Neighbors Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Non-Major Governmental Funds</u>
Cash and Cash Equivalents	\$ 1,180	\$ 103,855	\$ 105,035
Accounts Receivable, Net	-	-	-
Total Assets	<u>\$ 1,180</u>	<u>\$ 103,855</u>	<u>\$ 105,035</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
 Fund Balances:			
Restricted:			
Streets	-	103,685	103,685
Committed:			
Community Projects and Future Capital Projects	1,180	170	1,350
Total Fund Balances	<u>1,180</u>	<u>103,855</u>	<u>105,035</u>
Total Liabilities and Fund Balances	<u>\$ 1,180</u>	<u>\$ 103,855</u>	<u>\$ 105,035</u>

Town of Caswell Beach, North Carolina
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2012

	<u>Neighbors Fund</u>	<u>Capital Reserve Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:			
Committee Revenue	\$ -	\$ -	-
Accommodations Tax	-	-	-
Powell Bill Receipts	-	8,296	8,296
Interest Income	-	347	347
Total Revenues	<u>-</u>	<u>8,643</u>	<u>8,643</u>
Expenditures			
Maintenance	-	-	-
Other Expenditures	-	1,800	1,800
Total Expenditures	<u>-</u>	<u>1,800</u>	<u>1,800</u>
Revenues Over (Under) Expenditures	<u>-</u>	<u>6,843</u>	<u>6,843</u>
Other Financing Sources (Uses)			
Transfer to General Fund	-	-	-
Transfer From Other Funds	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>-</u>	<u>6,843</u>	<u>6,843</u>
Fund balance, beginning	<u>1,180</u>	<u>97,012</u>	<u>98,192</u>
Fund balance, ending	<u>\$ 1,180</u>	<u>\$ 103,855</u>	<u>\$ 105,035</u>

Town of Caswell Beach, North Carolina
Neighbors Fund
Schedule of Revenues and Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Committee Revenue	\$ -	\$ -	\$ -
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:			
Committee Expenses	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenue Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)			
Transfer From General Fund	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		<u>1,180</u>	
Fund balance, ending		<u>\$ 1,180</u>	

Town of Caswell Beach, North Carolina
Capital Reserve Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Powell Bill Receipts	\$	\$ 8,296	8,296
Interest Earned		347	347
Total	-	8,643	8,643
Expenditures			
Maintenance	-	-	-
Other Expenditures	-	1,800	(1,800)
Total	-	1,800	(1,800)
Revenues Over Expenditures	-	6,843	6,843
Other Financing Sources (Uses)			
Transfer to General Fund	-	-	-
Transfer From General Fund	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net change in fund balance	\$	6,843	\$ 6,843
Fund balance, beginning		97,012	
Fund balance, ending	\$	103,855	

Town of Caswell Beach, North Carolina
Enterprise Fund - Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues			
Operating Revenues			
Water and Sewer Charges	\$ 873,270	\$ 835,729	\$ (37,541)
Water Services - Other	-	-	-
Water and Sewer Taps	2,880	2,880	-
Penalties, Permits, and Reconnect	7,385	8,505	1,120
Total	<u>883,535</u>	<u>847,114</u>	<u>(36,421)</u>
Nonoperating Revenues			
Interest on Investments	1,000	610	(390)
Sales Tax Refund	-	-	-
Capital Recovery	860	860	-
Miscellaneous	16,289	-	(16,289)
Total Non-Operating Revenues	<u>18,149</u>	<u>1,470</u>	<u>(16,679)</u>
Total Revenues	<u>901,684</u>	<u>848,584</u>	<u>(53,100)</u>
Expenditures			
Water and Sewer Administration			
Salaries and Employee Benefits	85,200	78,318	6,882
Audit	3,000	3,000	-
Legal	3,000	2,704	296
Other Departmental Expenses	24,700	5,383	19,317
Total Water and Sewer Administration	<u>115,900</u>	<u>89,405</u>	<u>26,495</u>
Water and Sewer Operations			
Salaries and Employee Benefits	95,376	94,440	936
Water Purchases	105,800	101,916	3,884
Water Testing	2,000	1,934	66
Water Tap Service	1,000	-	1,000
Sewer Operations	204,986	214,380	(9,394)
Water Operations	33,196	30,624	2,572
Total Water Operations	<u>442,358</u>	<u>443,294</u>	<u>(936)</u>
Debt Service:			
Interest and fees	-	-	-
Principal retirement	75,000	75,000	-
Capital Charge - Oak Island	292,546	292,546	-
Total debt service	<u>367,546</u>	<u>367,546</u>	<u>-</u>

Town of Caswell Beach, North Carolina
Enterprise Fund - Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	
Capital Outlay			
System Improvements	-	-	-
Total Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>
 Total Expenditures	 925,804	 900,245	 25,559
 Revenues Over (Under) Expenditures	 <u>(24,120)</u>	 <u>(51,661)</u>	 <u>(27,541)</u>
 Other Financing Sources (Uses)			
Appropriated Fund Balance	-	-	-
Retained Earnings	-	-	-
Transfer To General Fund	(48,100)	-	48,100
Transfer From Capital Project	<u>72,220</u>	<u>-</u>	<u>(72,220)</u>
Total Other Financing Sources (Uses)	<u>24,120</u>	<u>-</u>	<u>(24,120)</u>
 Revenues and other sources over (under) expenditures and other uses	 \$ <u>-</u>	 <u>(51,661)</u>	 \$ <u>(51,661)</u>
 Reconciliation From Budgetary Basis (Modified Accrual) to Full Accrual:			
 Revenues and Other Sources Over (Under) Expenditures		\$ (51,661)	
 Reconciling Items:			
Depreciation		(131,564)	
Capital Outlay		-	
Capital Contributions (from Project Ex D-1a)		1,255,039	
Interest Income (Ex D-1a)		788	
Miscellaneous (Ex D-1a)		-	
Transfers from (to) other funds (Ex D-1a)		-	
Total Reconciling Items		<u>1,124,263</u>	
Net Income		\$ <u>1,072,602</u>	

Town of Caswell Beach, North Carolina
Capital Project Fund - Wastewater
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2012

	Project Author- ization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues					
Interest Income	\$ 18,612	\$ 20,806	\$ 788	\$ 21,594	\$ 2,982
Special assessments	200,000	-	-	-	(200,000)
Wastewater fees	89,000	-	-	-	(89,000)
ARRA Funds	2,917,556	2,651,894	348,106	3,000,000	82,444
CWMFT Funds	2,500,000	1,641,039	858,961	2,500,000	-
Oak Island Funds	237,000	-	155,181	155,181	(81,819)
Progress Energy	320,400	-	-	-	(320,400)
Coast Guard Funds	-	-	66,844	66,844	66,844
Miscellaneous	-	480	-	480	480
NC Baptist Assembly	-	350,000	-	350,000	350,000
Total revenues	<u>6,282,568</u>	<u>4,664,219</u>	<u>1,429,880</u>	<u>6,094,099</u>	<u>(188,469)</u>
Expenditures					
Current:					
Administration	1,050,157	1,011,262	24,455	1,035,717	14,440
Construction	5,629,556	3,096,313	1,193,618	4,289,931	1,339,625
Real Property	360,400	703,222	-	703,222	(342,822)
Total Expenditures	<u>7,040,113</u>	<u>4,810,797</u>	<u>1,218,073</u>	<u>6,028,870</u>	<u>1,011,243</u>
Revenues over expenditures	<u>(757,545)</u>	<u>(146,578)</u>	<u>211,807</u>	<u>65,229</u>	<u>822,774</u>
Other Financing Sources					
Transfers (to) from other funds:					
General Fund	715,545	715,545	-	715,545	-
Water Fund	42,000	42,000	-	42,000	-
Total other financing sources	<u>757,545</u>	<u>757,545</u>	<u>-</u>	<u>757,545</u>	<u>-</u>
Revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>610,967</u>	\$ <u>211,807</u>	\$ <u>822,774</u>	\$ <u>822,774</u>

Other Schedules

This section includes additional information on property taxes.

- **Schedule of Ad Valorem Taxes Receivable**
- **Analysis of Current Tax Levy**

Town of Caswell Beach, North Carolina
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2012

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property Tax	\$ 332,391,176	0.17	\$ 565,065	\$ 557,610	\$ 7,455
Totals	<u>\$ 332,391,176</u>		<u>\$ 565,065</u>	<u>\$ 557,610</u>	<u>\$ 7,455</u>
Less: Uncollected taxes at June 30, 2012			<u>2,622</u>	<u>2,271</u>	<u>351</u>
Current year's taxes collected			<u>\$ 562,443</u>	<u>\$ 555,339</u>	<u>\$ 7,104</u>
Current levy collection percentage			<u>99.54%</u>	<u>99.59%</u>	<u>95.29%</u>

Compliance Section



CERTIFIED PUBLIC ACCOUNTANTS

Alan W. Thompson, CPA
R. Bryon Scott, CPA
Gregory S. Adams, CPA

Offices:
Whiteville, NC
Elizabethtown, NC
Wilmington, NC

**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 Town Council
Town of Caswell Beach, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Caswell Beach, North Carolina, as of and for the year ended June 30, 2012, which collectively comprises the Town of Caswell Beach's basic financial statements, and have issued our report thereon dated November 7, 2012. 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

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

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis.

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
Page 2

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control financial reporting described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. [12-1] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Caswell 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 are 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 management, others within the entity, members of Town Council and 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.

Thompson, Price, Scott, Adams & Co., P.A.


November 7, 2012



CERTIFIED PUBLIC ACCOUNTANTS

Alan W. Thompson, CPA
R. Bryon Scott, CPA
Gregory S. Adams, CPA

Offices:
Whiteville, NC
Elizabethtown, NC
Wilmington, NC

Report On Compliance With Requirements Applicable To Each Major Federal
Program And Internal Control Over Compliance In Accordance With OMB
Circular A-133 and the State Single Audit Implementation Act

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

Compliance

We have audited the Town of Caswell Beach, North Carolina's, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Caswell Beach's major federal programs for the year ended June 30, 2012. The Town of Caswell Beach's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Caswell Beach's management. Our responsibility is to express an opinion on the Town of Caswell Beach's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Caswell Beach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit of the basic financial statements. We do not express an opinion or provide any assurance on the informa

In our opinion, the Town of Caswell Beach complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of Caswell Beach is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Caswell Beach's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Caswell Beach's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance what we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, others within the entity, members of Town Council, and 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.

Thompson, Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co. P.A.

November 7, 2012

**Town of Caswell Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material Weakness(es) identified? _____yes Xno
- Significant Deficiency(s) identified that are not considered to be material weaknesses Xyes _____none reported
- Noncompliance material to financial statements noted _____yes Xno

Federal Awards

Internal control over major federal programs:

- Material Weakness(es) identified? _____yes Xno
- Significant Deficiency(s) identified that are not considered to be material weaknesses _____yes Xnone reported
- Noncompliance material to federal awards _____yes Xno

Type of auditor's report issued on compliance for major federal programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 _____yes Xno

Identification of major federal programs:

<u>CFDA #</u>	<u>Program Name</u>
66.458	Water Quality Management Planning Grant - ARRA Funding
66.458	Capitalization Grant for State Revolving Fund

Federal programs that met the criteria for a major program using the criteria discussed in OMB Circular No. A-133 Section .520 and the State Single Audit Act are included in the list of major federal programs.

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? _____yes Xno

**Town of Caswell Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Section II. Financial Statement Findings

Finding 12-1

SIGNIFICANT DEFICIENCY

Criteria: Internal controls are enhanced when the responsibilities for executing a transaction, recording the transaction, and maintaining custody of the assets resulting from the transaction are assigned to different individuals.

Condition: In reviewing internal control procedures within the Finance Department, we noticed a lack of segregation of duties due to the small number of employees. Internal controls are enhanced when the responsibilities for executing a transaction, recording the transaction, and maintaining custody of the assets resulting from the transaction are assigned to different individuals.

Effect: While it may be convenient to have one person authorized to handle multiple phases of a transaction, it does not provide the ideal internal control structure.

Cause: The small number of employees within the Finance Department makes it difficult to achieve an adequate segregation of duties.

Recommendation: We believe it would be in the Town's best interests to implement a rotation schedule for the review of controls related to the receipt, recording, and reconciling of cash transactions to see whether they can be strengthened.

Section III. Federal Award Findings and Questioned Costs

None Reported.

**Town of Caswell Beach, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2012**

Section II - Financial Statement Findings

Finding 12-1

Name of contact person: Chad Hicks, Town Administrator

Corrective Action: Management will continue to monitor these activities and when applicable, reassign incompatible duties among new personnel as funding becomes available.

Proposed Completion Date: Immediately.

Section III - Federal Award Findings and Question Costs

None Reported.

Town of Caswell Beach, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2012

Finding 11-1:

Status: Corrected.

Finding 11-2:

Status: Duties are being separated as much as possible considering the limited number of staff, but this is still an ongoing finding due to the limited number of Town personnel.

Town of Caswell Beach, North Carolina
Schedule of Expenditures of Federal and State Awards
For The Fiscal Year Ended June 30, 2012

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed (Direct & Pass-through Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Awards:					
U.S. Environmental Protection Agency N.C. Department of Environment and Natural Resources Division of Water Quality					
Water Quality Management Planning Grant - ARRA Funding	66.454		\$ 348,106	\$ -	\$ -
Capitalization Grant for State Revolving Fund	66.458	2006A-602	858,961	-	11,006
Total			<u>\$ 1,207,067</u>	<u>\$ -</u>	<u>\$ 11,006</u>
U.S. Department of Homeland Security Passed-through N.C. Dept. of Crime Control and Public Safety					
Public Assistance Grant Program - FEMA - Hurricane Irene	97.036		11,367	3,789	-
Total Assistance - Federal Programs			<u>\$ 1,218,434</u>	<u>\$ 3,789</u>	<u>\$ 11,006</u>
State Awards:					
N.C. Dept. of Transportation					
Powell Bill			-	1,800	-
Total Assistance - State Programs			<u>\$ -</u>	<u>\$ 1,800</u>	<u>\$ -</u>
Total Assistance			<u>\$ 1,218,434</u>	<u>\$ 5,589</u>	<u>\$ 11,006</u>

Notes to the Schedule of Expenditures of State Financial Awards

1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Caswell Beach and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with applicable requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.