

City of Dunn, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2011

The City of Dunn, North Carolina (the City) is located in the eastern part of the state and has a 2011 population of approximately 9,263. The City is governed by an elected mayor and a six-member council. The City's major operations include police protection, sanitary services, parks and recreation, water and sewer systems, and general administration services.

I. Summary of Significant Accounting Policies

The accounting policies of the City of Dunn and its discretely presented component unit 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 City of Dunn is a municipal corporation which is governed by an elected mayor and a six-member council. As required by generally accepted accounting principles, these financial statements present the financial activity of the City and its component unit, a legally separate entity for which the City is accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

City of Dunn ABC Board

The members of the ABC Board's governing board are appointed by the City. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the City. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at City of Dunn ABC Board, P.O. Box 70, Dunn, North Carolina 28335-0070.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Interfund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. 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 City and for each function of the City'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 City's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The

emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

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

The City reports the following non-major governmental funds:

Downtown Revitalization Capital Project Fund This fund is used to account for improvements to the infrastructure in the downtown area.

Street Improvement Capital Project Fund. This fund is used to account for the street improvements to foster economic development and growth.

Emergency Telephone System Special Revenue Fund. This fund is used to account for the fees charged to telephone customers to fund the 911 system.

The City reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the City 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 City 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.

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 City considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year.

Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Harnett 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 City of Dunn. 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 City's vehicle taxes for vehicles registered in Harnett County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2011 because they are intended to finance the City's operations during the 2012 fiscal year.

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 City 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 City 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 City'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 City 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 City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Emergency Telephone Special Revenue Fund and the Enterprise Funds. Project Ordinances are adopted for the Street Improvement Capital Project Fund, Downtown Revitalization Capital Project and the Water and Sewer Capital Project Fund. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. 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.

A budget calendar is included in the North Carolina General Statutes that prescribes the last day on which certain steps of that budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed.

April 30 – Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year.

June 1 – The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time.

July 1 – The budget ordinance shall be adopted by the governing board.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the City and the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and the ABC Board 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 City and the ABC Board 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 City's and the ABC Board'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.

2. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the City before any 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 City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The inventories of the City and the ABC Board are valued at cost (first-in, first-out), which approximates market. The City's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the City's enterprise funds and those of the City of Dunn ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000 for all types of assets. 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:

Asset Class	Estimated Useful Lives
Buildings	30
Improvements	20
Vehicles	5
Furniture and equipment	7
Computer equipment	3
Data handling equipment except computers	5
Heavy duty general purpose trucks	5
Tractor units-over road use	7
Trailers	7

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Asset Class	Estimated Useful Lives
Buildings	10 - 40
Furniture and equipment	3 - 10
Leasehold Improvements	15 - 40

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

The vacation policies of the City provide for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the City's government-wide and proprietary funds, an expense and liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City has assumed a first-in, first-out method of using 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 City's sick leave policies provide 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 City 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 composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Stabilization by State statute - portion of fund balance that is restricted by State 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.

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures and drug enforcement expenditures.

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

Assigned fund balance – portion of fund balance that City of Dunn intends to use for specific purposes.

Assigned for Street Improvement – portion of fund balance that has been budgeted by the Board for street improvements to foster economic development and growth.

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

The City of Dunn has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the City.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None.

B. Excess of Expenditures over Appropriations

None.

C. Deficit Fund Balance or Retained Earnings of Individual Funds

The Downtown Revitalization Capital Project Fund had a deficit fund balance at June 30, 2011 due to engineering services being accrued prior to receipt of funds from interim financing.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City and the ABC Board 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 City's or the ABC Board'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 City and the ABC Board, these deposits are considered to be held by the City's and the ABC Board'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 City, the ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City and the ABC Board 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 City and the ABC Board have no policy regarding custodial credit risk.

At June 30, 2011, the City's deposits had a carrying amount of \$2,929,093 and a bank balance of \$3,028,485. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder of \$2,528,485 was covered by collateral held under the Pooling Method. The carrying amount of deposits for the ABC Board was \$161,958 and the bank balance was \$228,006. At June 30, 2011, all bank balances were covered by federal depository insurance. At June 30, 2011, the City's petty cash fund totaled \$1,093.

2. Investments

The investments of the City and the ABC Board are categorized to give an indication of the level of custodial risk assumed by each of these entities at year-end. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because neither the City nor the ABC Board owns any identifiable securities, but are shareholders of a percentage of the fund.

	<u>Cost Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust		
Cash Portfolio	<u>\$ 484,839</u>	<u>\$ 484,839</u>
First Citizens Bank		
Investment Note	<u>\$ 255,000</u>	<u>\$ 245,384</u>

The City and the ABC Board have no policy regarding credit risk. The City's investment in the North Carolina Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard and Poor's as of June 30, 2011.

3. Receivables

Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>June 30, 2011</u>
General Funds	
Taxes Receivable	<u>\$158,865</u>

Accounts receivable consists of:

General Fund	
Trade	\$ 152,738
Special Assessments	<u>302,687</u>
	<u>\$ 455,425</u>
Water and Sewer Fund	
Trade	<u>\$ 510,070</u>

4. Capital Assets

Primary Government

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 1,492,963	\$ -	\$ -	\$ 1,492,963
Construction in Progress	-	210,312		210,312
Total capital assets not being depreciated	<u>1,492,963</u>	<u>210,312</u>	-	<u>1,703,275</u>
Capital assets being depreciated				
Buildings	3,180,283	-	-	3,180,283
Other improvements	852,019	-	-	852,019
Equipment	1,903,521	73,750	-	1,977,271
Vehicles and motorized equipment	1,518,115	185,041	47,923	1,655,233
Other	382,121	84,713	-	466,834
Total capital assets being depreciated	<u>7,836,059</u>	<u>343,504</u>	<u>47,923</u>	<u>8,131,640</u>
Less accumulated depreciation for				
Buildings	1,442,537	115,866	-	1,558,403
Other improvements	527,898	21,976	-	549,874
Equipment	1,549,820	89,840	-	1,639,660
Vehicles and motorized equipment	999,208	159,873	47,923	1,111,158
Other	344,554	33,030	-	377,584
Accumulated depreciation	<u>4,864,017</u>	<u>\$ 420,585</u>	<u>\$ 47,923</u>	<u>5,236,679</u>
Total capital assets, depreciated, net	<u>2,972,042</u>			<u>2,894,961</u>
Governmental activity capital assets, net	<u>\$ 4,465,005</u>			<u>\$ 4,598,236</u>

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

General government	\$ 48,218
Public safety	180,276
Transportation	65,902
Environmental protection	10,042
Cultural and recreational	97,939
Library	18,208
	<u>\$ 420,585</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Water and Sewer Fund				
Capital assets not being depreciated				
Land	\$ 150,965	\$ -	\$ -	\$ 150,965
Construction in progress	1,631,672	6,494,377	-	8,126,049
Total capital assets not being depreciated	1,782,637	6,494,377	-	8,277,014
Capital assets being depreciated				
Buildings	708,775	114,110	-	822,885
Equipment	506,968	107,946	-	614,914
Plant distribution systems	30,667,736	336,138	-	31,003,874
Vehicles	352,519	56,058	21,547	387,030
Total capital assets being depreciated	32,235,998	614,252	21,547	32,828,703
Less accumulated depreciation for:				
Buildings	558,484	16,269	-	574,753
Equipment	354,042	32,743	-	386,785
Plant distribution systems	15,209,897	617,359	-	15,827,256
Vehicles	347,511	10,761	21,547	336,725
Accumulated Depreciation	16,469,934	\$ 677,132	\$ 21,547	17,125,519
Capital assets, depreciated, net	15,766,064			15,703,184
Business-type activities capital asset	\$ 17,548,701			\$ 23,980,198

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2011 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$191,572	\$ -	\$ -	\$191,572
Capital assets being depreciated:				
Buildings	335,527	-	-	335,527
Furniture and equipment	129,122	27,114	-	156,236
Land improvements	10,094	-	-	10,094
Total capital assets being depreciated	474,743	27,114	-	501,857
Less accumulated depreciation for:				
Buildings	173,214	8,228	-	181,442
Furniture and equipment	103,750	8,558	-	112,308
Land improvements	5,962	564	-	6,526
Total accumulated depreciation	282,926	\$ 17,350	\$ -	300,276
Total capital assets being depreciated, net	191,817			201,581
ABC capital assets, net	\$383,389			\$393,153

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Dunn and the ABC Board contribute 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 City and the ABC Board are required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.41% and 6.46%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.8% of annual covered payroll. The contribution requirements of members and of the City of Dunn and the ABC Board are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2011, 2010 and 2009 were \$302,336, \$230,149 and \$212,932, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2011, 2010 and 2009 were \$6,375, \$5,187 and \$5,075, respectively. The contributions made by the City and the ABC Board equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The City of Dunn administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City'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 City are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	36
Total	<u>41</u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. The City 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 City 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 City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

Annual Pension Cost and Net Pension Obligation. The City's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 69,016
Interest on net pension obligation	3,750
Adjustment to annual required contribution	<u>(4,015)</u>
Annual pension cost	68,751
Contributions made	<u>57,880</u>
Increase (decrease) in net pension obligation	10,871
Net pension obligation beginning of year	<u>75,004</u>
Net pension obligation end of year	<u>\$ 85,875</u>

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2009	\$ 44,484	100.93%	\$ 80,895
6/30/2010	\$ 53,046	111.11%	\$ 75,004
6/30/2011	\$ 68,751	84.19%	\$ 85,875

4. *Funded Status.*

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$598,793. The covered payroll (annual payroll of active employees covered by the plan) was \$1,397,667 and the ratio of the UAAL to the covered payroll was 42.84%.

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

c. Supplemental Retirement Income Plan for Employees

Plan Description. The City 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, including law enforcement employees. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the City to contribute each month an amount equal to five percent of each officer's salary. The City voted to contribute each month an amount equal to two percent of each non law enforcement salary to this plan, and all amounts contributed are vested immediately. Also, employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$196,535 which consisted of \$63,877 and \$74,865 from the City for non law enforcement officers and law enforcement officers, respectively, and \$34,076 and \$23,717 from non law enforcement officers and law enforcement officers, respectively. ABC Board contributions for the year end June 30, 2011 were \$6,575 which consisted of \$1,875 from the City of Dunn Board of Alcoholic Control and \$4,700 from the employees of the ABC Board.

d. Other Postemployment Benefits

Healthcare Benefits

Plan Description. According to a City resolution, the City provides post-employment health care benefits to retirees of the City, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty-five years of creditable service with the City. The City pays the full cost of coverage for these benefits. Retirees with at least fifteen years of service may remain on the City's plan and are eligible for premium supplements established by the City Council. Also, the City's retirees can purchase coverage for their dependents at the City's group rates. Currently twenty-nine retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2011, the City made payments for postretirement health benefit premiums of \$110,515. The City obtains health care coverage through private insurers. The City of Dunn Board of Alcoholic Control had one retiree eligible for postretirement health benefits, and the Board made payments for premiums of \$3,812. The Board obtains health care coverage through private insurers.

Membership of the Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	General Employees:	Law Enforcement Officers:
Retirees and dependents receiving benefits	14	10
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	90	36
Total	104	46

Funding Policy. The City pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a City resolution that can be amended by City Council. The City's members pay for dependent coverage. The City has chosen to fund the healthcare benefits on a pay as you go basis.

The current Annual Required Contribution (ARC) rate is 8.90% of annual covered payroll. For the current year, the City contributed \$0 or 0% of annual covered payroll. The City obtains healthcare coverage through private insurers. The City's required contributions, under a City resolution, for employees not engaged in law enforcement and for law enforcement officers represented 6.32% and 2.58% of covered payroll, respectively. There were no contributions made by employees. The City's obligation to contribute to Plan is established and may be amended by the City Council.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The City's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 406,380
Interest on net OPEB obligation	16,255
Adjustment to annual required contribution	<u>(15,529)</u>
Annual OPEB cost (expense)	407,106
Contributions made	<u>(144,650)</u>
Increase (decrease) in net OPEB obligation	262,456
Net OPEB obligation, beginning of year	<u>406,380</u>
Net OPEB obligation, end of year	<u><u>\$ 668,836</u></u>

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

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 406,380	0.0%	\$ 406,380
2011	\$ 407,106	0.0%	\$ 668,836

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$5,875,173. The covered payroll (annual payroll of active employees covered by the plan) was \$4,564,952, and the ratio of the UAAL to the covered payroll was 128.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative

expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 30 years.

2. Other Employment Benefits

The City has also 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 month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$20,000. Effective July 1, 2004, the death benefit payments to beneficiaries must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2010, the City made contributions to the State for death benefits of \$0. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .15% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

2. Accounts Payable

Accounts payable is composed of the following elements:

General Funds	
Trade	\$ 112,199
Other	86,895
Accrued payroll	129,768
	<u>\$ 328,862</u>
Water and Sewer Fund	
Trade	\$ 336,543
Other	74,017
Accrued payroll	32,536
	<u>\$ 443,096</u>

3. Deferred / Unearned Revenues

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Prepaid taxes not yet earned (General Fund)	\$ -	\$ 9,749
Prepaid Privilege License not yet earned (General Fund)	-	33,666
Taxes receivable (net) (General Fund)	158,865	-
	<u>\$ 158,865</u>	<u>\$ 43,415</u>

4. Risk Management

The City 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 City 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.

City of Dunn ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

The City's insurer has advised the City that it is in an area that carries low risk of damages due to floods and the City has elected not to purchase flood insurance based on the insurer's assessment.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$500,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

5. Claims and Judgments

At June 30, 2011, the City was a defendant to various lawsuits. In the opinion of the City's management and the City attorney, the ultimate outcome of these legal matters will not have a material adverse effect on the City's financial position.

6. Long-Term Obligations

a. Installment Purchases

General Fund

In July 2004, the City entered into an installment purchase contract to finance the widening of Highway 421. The contract requires principal payments beginning in the fiscal year 2006 with interest at 3.93%. The balance of this note is \$246,400 at June 30, 2011.

In July 2004, the City entered into an installment purchase contract to finance the recreation facility at Tart Park. The contract requires principal payments beginning in the fiscal year 2006 with interest at 4.17%. The balance of this note is \$570,000 at June 30, 2011.

In July 2007, the City entered into an installment purchase contract to finance three new police cars, one new animal truck, three used police cars and equipment packages for the police cars. The contract requires principal payments beginning in fiscal year 2008 with interest at 4.00%. The balance of this note is \$23,882 at June 30, 2011.

In September 2008, the City entered into an installment purchase contract to finance six used police cars. The contract requires principal payments beginning in fiscal year 2010 with interest at 3.34%. The balance of this note is \$64,553 at June 30, 2011.

In September 2009, the City entered into an installment purchase contract to finance five police cars and a boom truck. The contract requires principal payments beginning in the fiscal year 2011 with interest at 3.40%. The balance of this note is \$182,956 at June 30, 2011.

In August 2009, the City entered into an installment purchase contract to finance street resurfacing. The contract requires principal payments beginning in the fiscal year 2011 with interest at 3.93%. The balance of this note is \$900,000 at June 30, 2011.

In May 2010, the City entered into an installment purchase contract to finance the City Hall's roof replacement. The contract requires principal payments beginning in the fiscal year 2011 with interest at 2.77%. The balance of this note is \$88,389 at June 30, 2011.

In August 2010, the City entered into an installment purchase contract to finance seven police cars and a tractor. The contract requires principal payments beginning in fiscal year 2012 with interest at 2.44%. The balance of this note is \$190,000 at June 30, 2011.

Future minimum payments of General Fund installment purchases are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 466,666	\$ 381,447	\$ 85,219
2013	432,856	361,574	71,282
2014	389,963	331,857	58,106
2015	380,971	334,783	46,188
2016	237,014	203,187	33,827
2017-2021	<u>719,042</u>	<u>653,332</u>	<u>65,710</u>
	<u>\$ 2,626,512</u>	<u>\$ 2,266,180</u>	<u>\$ 360,332</u>

Water and Sewer Fund

In August 2001, the City entered into an installment purchase contract to finance improvements at the water and sewer plant. The financing contract required principal payments beginning August 2002, with interest at 5.28%. The balance of this note was \$400,000 at June 30, 2011.

Future minimum payments of these installment purchases are as follows at June 30, 2011:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 87,787	\$ 66,667	\$ 21,120
2013	84,267	66,667	17,600
2014	80,747	66,667	14,080
2015	77,227	66,667	10,560
2016	73,707	66,667	7,040
2017-2021	<u>70,185</u>	<u>66,665</u>	<u>3,520</u>
	<u>\$ 473,920</u>	<u>\$ 400,000</u>	<u>\$ 73,920</u>

b. General Obligation Indebtedness

The City's general obligation bonds serviced by the governmental funds were issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2011 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Water and Sewer Fund:

Water and Sewer Refunding bonds
 due on June 1 and December 1 due in installments
 of varying amounts through June 1, 2025; initial
 interest at 2.375% increasing to 4.35% at maturity. \$1,900,000

Annual debt service requirements to maturity for general obligation bonds, including interest of \$590,246 on the Water Treatment Plant Expansion bonds, are as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 188,335	\$ 115,000	\$ 73,335
2013	189,310	120,000	69,310
2014	189,960	125,000	64,960
2015	190,273	130,000	60,273
2016	191,176	135,000	56,176
2017-2021	740,687	565,000	175,687
2022-2026	800,505	710,000	90,505
	<u>\$ 2,490,246</u>	<u>\$ 1,900,000</u>	<u>\$ 590,246</u>

At June 30, 2011, the City of Dunn had a legal debt margin of \$ 52,266,301.

c. Advance Refunding

On February 17, 2004, the City issued \$2.795 million in general obligation Water and Sewer Refunding Bonds with an interest rate of 2.375 percent to advance refund \$2.599 million of outstanding 1988 Water and Sewer bonds with an interest rate of 5.75 percent. The net proceeds of \$2.599 million were used to repay the current outstanding bonds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$196,000. Part of this difference, \$73,980, represents bond issuance cost and is being amortized over the life of the bond. The current year charge to operations for this amortization amounted to \$3,363. The City completed the advance refunding to reduce its total debt service payments over the next 28 years by \$1,028,596.

d. Revolving Water and Sewer Loans

In November 1996 the City entered into a promissory note from the Water Pollution Control Revolving Loan Fund in the amount of \$2,367,095. This note was used to finance construction of the wastewater treatment facility and transport facilities. The promissory note requires principal payments beginning May 1997 with interest at 2.89%. The balance of this note is \$278,480 at June 30, 2011.

The City accepted a promissory note of up to \$5,000,000 from the Division of Water Quality State Revolving Fund to provide financing for replacing sewer lines, upgrading lift stations and construction of equalization basin at wastewater treatment facility. The note is expected to be fully funded by June 30, 2012 upon completion of the project. Since this note has not been fully funded as of June 30, 2011, its' schedule debt service is excluded from the following schedule of annual debt service payments. The loan provides for interest at a rate of 2.5%, payable semiannually, and for 20 annual principal payments beginning May 2012. The balance of this note is \$4,104,803 at June 30, 2011.

Annual debt service requirements to maturity for the revolving water and sewer loan, including interest of \$12,072 is as follows:

<u>Year</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 147,289	\$ 139,241	\$ 8,048
2013	143,265	139,241	4,024
	<u>\$ 290,554</u>	<u>\$ 278,482</u>	<u>\$ 12,072</u>

e. Changes in Long-Term Liabilities

	Balance 7/1/2010	Increases	Decreases	Balance 6/30/2011	Current Portion of Balance
Governmental activities:					
Installment purchase	\$ 2,483,313	\$ 190,000	\$ 407,133	\$ 2,266,180	\$ 381,447
Compensated absences	346,069	-	6,977	339,092	145,810
Unfunded pension contribution	75,004	10,871	-	85,875	-
Other postemployment benefits	314,183	202,894	-	517,077	-
Governmental activity long-term liabilities	<u>\$ 3,218,569</u>	<u>\$ 403,765</u>	<u>\$ 414,110</u>	<u>\$ 3,208,224</u>	<u>\$ 527,257</u>
Business-type activity					
Installment purchases	\$ 466,667	\$ -	\$ 66,667	\$ 400,000	\$ 66,667
General obligation bonds	2,015,000	-	115,000	1,900,000	115,000
Water and sewer revolving loans	417,722	4,104,803	139,242	4,383,283	139,241
Compensated absences	83,519	-	2,786	80,733	34,714
Other postemployment benefits	92,197	59,562	-	151,759	-
Business-type activity long-term liabilities	<u>\$ 3,075,105</u>	<u>\$ 4,164,365</u>	<u>\$ 323,695</u>	<u>\$ 6,915,775</u>	<u>\$ 355,622</u>

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

7. Inter-fund Balances and Activity

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

The Downtown Revitalization Capital Project Fund owed \$225,000 to the Water and Sewer Fund.

Transfers:

The Water and Sewer Fund transferred \$340,000 to the General Fund to provide working capital.

8. 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	\$ 3,399,291
Less:	
Prepaid Expenses	47,937
Inventories	34,726
Drug prevention and public safety maintenance	7,859
Stabilization by State Statute	823,777
Streets-Powell Bill	468,709
Appropriated Fund Balance in 2012 Budget	-
Remaining Fund Balance	\$ 2,016,283

IV. Commitments

The City has contracted with Republic Services of NC, LLC to provide solid waste services until June 30, 2015. The City must pay \$8.95 per unit each month, which includes curbside recycling, in addition to a monthly service fee that is adjusted annually. The City paid \$429,778 to Republic Services of NC, LLC for services provided during the year ended June 30, 2011.

The City has contracted with Time Warner Cable to allow the City to place an antenna on their tower until October 31, 2014. The City is obligated to pay Time Warner Cable \$11,031, \$11,362, \$11,703 and \$3,940 during the years ended June 30, 2012, 2013, 2014, and 2015 respectively. The City paid \$10,684 to Time Warner Cable for tower rent during the year ended June 30, 2011.

The City had commitments under uncompleted construction contracts in the Water and Sewer Fund totaling \$58,552 at June 30, 2011.

The City has leased building space to Johnson-Lee-Harnett Community Action, Inc. The lease calls for monthly lease payments in the amount of \$1,463. The lease is for a ten year period ending March 2020.

V. Related Organization

The six-member board of the City of Dunn Housing Authority is appointed by the City Council of the City of Dunn. The City is accountable for the Housing Authority because it appoints the governing board; however, the City is not financially accountable for the Housing Authority. The City of Dunn is also disclosed as a related organization in the notes to the financial statements for the City of Dunn Housing Authority.

VI. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The City 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.

VII. Subsequent Events

The City has evaluated events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The City has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

VIII. Special Items

Management elected to dispose of various pieces of equipment during 2011. Proceeds from the disposals were \$16,801.