

**TOWN OF HIGHLANDS  
NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**MARTIN ♦ STARNES  
& ASSOCIATES, CPAs, P.A.**

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*"A Professional Association of Certified Public Accountants and Management Consultants"*

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Mayor:** W. David Wilkes

**Town Commissioners:** D. Larry Rogers

John M. Dotson

Dennis K. DeWolf

Gary E. Drake

Amy E. Patterson

**Interim Town Manager:** Bob Zoellner

**Accounting Supervisor:** Chuck Young

# TOWN OF HIGHLANDS, NORTH CAROLINA

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**TOWN OF HIGHLANDS, NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Town Commissioners  
Town of Highlands, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, North Carolina, as of and for the year ended June 30, 2011, 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 Highlands' management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Town of Highlands ABC Board which represents 100 percent, respectively, of the assets, net assets, and revenues of the component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Highlands ABC Board, is based solely on the report of the other auditors.

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. The financial statements of the Town of Highlands ABC Board were not audited in accordance with *Government Auditing Standards*. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands as of June 30, 2011, the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund and the Recreation 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 September 15, 2011, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Law Enforcement Officers' Special Separation Allowance, and the Other Post-Employment Benefits Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards 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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide assurance.

Our audit was performed for the purpose of forming opinions on the basic financial statements that collectively comprise the basic financial statements of Town of Highlands as a whole. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and supplemental ad valorem tax schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
September 15, 2011

## Management's Discussion and Analysis

As management of the Town of Highlands, we offer readers of the Town of Highlands' financial statements this narrative overview and analysis of the financial activities of the Town of Highlands for the fiscal year ended June 30, 2011. 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

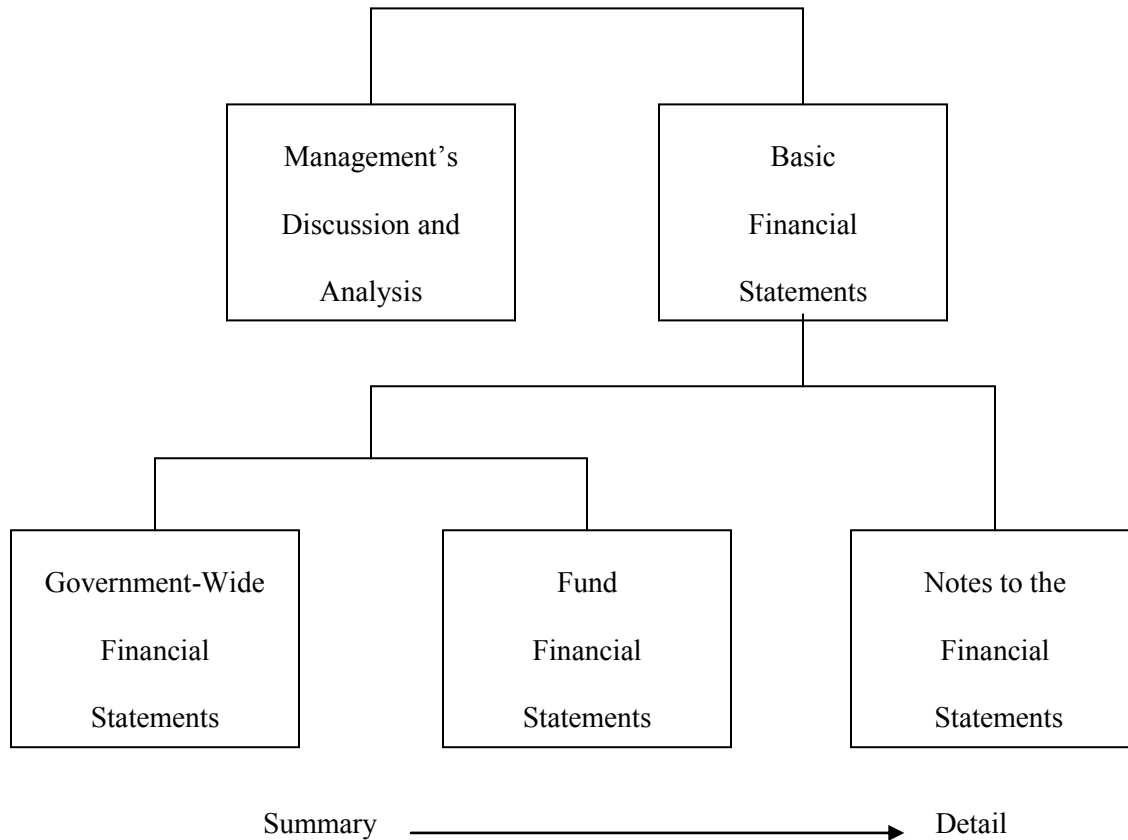
- The assets of the Town of Highlands exceeded its liabilities at the close of the fiscal year by \$33,677,804 (*net assets*).
- The government's total net assets increased by \$775,621.
- As of the close of the current fiscal year, the Town of Highlands' governmental funds reported combined ending fund balances of \$2,360,869, an increase of \$123,019, in comparison with the prior year. Approximately 28 percent of this total amount, or \$665,924, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$1,573,649 or 38 percent of total General Fund expenditures and transfers to other funds.

### Overview of the Financial Statements

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

The next statements (Exhibits C through K) 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 four parts to the fund financial statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services, such as public safety, transportation, culture and recreation, and general administration. Property taxes and federal and State grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide services. These include the water and sewer, electric, and sanitation services offered by the Town of Highlands.

The government-wide financial statements are on Exhibits A and B of this report.

## **Fund Financial Statements**

The fund financial statements 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 Highlands, 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 the Town of Highlands can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources 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 governmental 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 Highlands 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.** The Town of Highlands has one kind of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Highlands uses enterprise funds to account for its water and sewer operations, its electric operations, and its sanitation services.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Highlands has two fiduciary funds: the Scholarship Fund, and the Cemetery Fund.

**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 Exhibit L of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Highlands' progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. Required supplementary information can be found beginning on Schedule A-1 of this report.

### Town of Highlands' Net Assets

**Figure 2**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 2,722,530	\$ 2,446,108	\$ 2,726,263	\$ 2,953,192	\$ 5,448,793	\$ 5,399,300
Capital assets, net	<u>7,012,076</u>	<u>6,161,842</u>	<u>24,180,318</u>	<u>23,043,853</u>	<u>31,192,394</u>	<u>29,205,695</u>
Total assets	<u>9,734,606</u>	<u>8,607,950</u>	<u>26,906,581</u>	<u>25,997,045</u>	<u>36,641,187</u>	<u>34,604,995</u>
Liabilities	<u>1,207,957</u>	<u>506,120</u>	<u>1,755,426</u>	<u>1,196,693</u>	<u>2,963,383</u>	<u>1,702,813</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	6,712,094	5,965,570	22,750,478	22,323,229	29,462,572	28,288,799
Restricted	665,924	215,366	-	-	665,924	215,366
Unassigned	<u>1,148,631</u>	<u>1,920,894</u>	<u>2,400,677</u>	<u>2,477,123</u>	<u>3,549,308</u>	<u>4,398,017</u>
Total net assets	<u>\$ 8,526,649</u>	<u>\$ 8,101,830</u>	<u>\$ 25,151,155</u>	<u>\$ 24,800,352</u>	<u>\$ 33,677,804</u>	<u>\$ 32,902,182</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 Highlands exceeded liabilities by \$33,677,804 as of June 30, 2011. The Town's net assets increased by \$775,621 for the fiscal year ended June 30, 2011. The largest portion of net assets (79%) reflects the Town's investment in capital assets (e.g. land, buildings, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Highlands uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town of Highlands' net assets (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,549,308 is unassigned.

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

- Continued diligence in the collection of property taxes
- Diligence in collecting utility charges
- Increases in grant revenues relating to water and sewer capital projects
- Rate increases for water, sewer, and electric.

## Town of Highlands' Changes in Net Assets

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for services	\$ 117,935	\$ 87,019	\$ 6,229,893	\$ 5,606,100	\$ 6,347,828	\$ 5,693,119
Operating grants and contributions	1,104,086	1,181,279	-	-	1,104,086	1,181,279
Capital grants and contributions	-	-	778,969	1,100,682	778,969	1,100,682
<b>General Revenues:</b>						
Property taxes	2,570,631	2,537,571	-	-	2,570,631	2,537,571
Other taxes	805,852	774,618	-	-	805,852	774,618
Unrestricted intergovernmental	177,305	148,161	-	-	177,305	148,161
Investment earnings, unrestricted	7,309	19,134	6,517	27,713	13,826	46,847
Total revenues	<u>4,783,118</u>	<u>4,747,782</u>	<u>7,015,379</u>	<u>6,734,495</u>	<u>11,798,497</u>	<u>11,482,277</u>
<b>Expenses:</b>						
General government	1,430,492	1,350,484	-	-	1,430,492	1,350,484
Public safety	1,446,273	1,352,296	-	-	1,446,273	1,352,296
Transportation	890,207	906,776	-	-	890,207	906,776
Culture and recreation	777,449	818,324	-	-	777,449	818,324
Interest expense	5,306	8,215	-	-	5,306	8,215
Electric	-	-	3,525,317	2,999,625	3,525,317	2,999,625
Sanitation	-	-	577,160	551,793	577,160	551,793
Water and sewer	-	-	2,370,672	2,171,979	2,370,672	2,171,979
Total expenses	<u>4,549,727</u>	<u>4,436,095</u>	<u>6,473,149</u>	<u>5,723,397</u>	<u>11,022,876</u>	<u>10,159,492</u>
Increase in net assets before transfers	233,391	311,687	542,230	1,011,098	775,621	1,322,785
Transfers in (out)	191,428	-	(191,428)	-	-	-
Increase (decrease) in net assets	<u>\$ 424,819</u>	<u>\$ 311,687</u>	<u>\$ 350,802</u>	<u>\$ 1,011,098</u>	<u>\$ 775,621</u>	<u>\$ 1,322,785</u>

**Governmental Activities.** Governmental activities increased the Town's net assets by \$424,819. Key elements of this increase are as follows:

- Decreases in non-recurring costs relating to general government functions
- Continued receipts of grants and contributions and a slight increase in property tax revenues

**Business-Type Activities.** Business-type activities increased the Town's net assets by \$350,802. Key elements of this increase are as follows:

- Increases in grant revenues to pay for water and sewer projects
- Increases in water and sewer and electric fees to pay for operating expenses

## **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Highlands' 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 Highlands' financing requirements.

The General Fund is the chief operating fund of the Town of Highlands. At the end of the current fiscal year, Town of Highland's fund balance available in the General Fund was \$1,573,649, while total fund balance reached \$1,940,029. The Town currently has available fund balance of 38% of General Fund expenditures and transfers to other funds while total fund balance represents 46% of the same amount.

At June 30, 2011, the governmental funds of the Town of Highlands reported a combined fund balance of \$2,360,869 with a net increase in fund balance of \$123,019. Included in this change in fund balance are increases in fund balance in both the Capital Project Fund and Fire Department Fund.

**General Fund Budgetary Highlights.** During the fiscal year, the Town revised the budget at the end of the fiscal year. 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. Total amendments to the General Fund increased expenditures by approximately \$100,000 (3%). Amendments were necessary due to conservatism used in compiling the original budget.

**Proprietary Funds.** The Town of Highlands' proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year totaled \$892,816. The total increase in net assets for the Water and Sewer Fund was \$469,740. This increase is due to large amounts of grant revenue and increases in water and sewer rates. Unrestricted net assets of the Electric Fund at the end of the fiscal year totaled \$1,619,060. The total decrease in net assets for the Electric Fund was \$69,166. The decrease was due to increases in operating expenses and large transfers out to other funds. Unrestricted net assets of the Sanitation Fund at the end of the fiscal year totaled (\$111,199). The total decrease in net assets for the Sanitation Fund was \$49,772. This decrease is due to increases in operating expenses.

## **Capital Assets and Debt Administration**

**Capital Assets.** The Town of Highlands' capital assets for its governmental and business-type activities as of June 30, 2011 totals \$31,192,394 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, plants and distribution systems, and construction in progress.

Major capital asset transactions during the year include:

- Vehicles in the General Fund
- Additions of water and sewer infrastructure in the Water and Sewer Fund

**Town of Highlands' Capital Assets**  
(net of depreciation)

**Figure 4**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 115,354	\$ 115,354	\$ 399,040	\$ 399,040	\$ 514,394	\$ 514,394
Buildings and improvements	4,175,215	4,085,222	-	-	4,175,215	4,085,222
Equipment and vehicles	4,032,946	3,743,993	2,341,690	1,961,138	6,374,636	5,705,131
Recreation facilities	2,844,687	2,835,237	-	-	2,844,687	2,835,237
Infrastructure	920,953	450,064	-	-	920,953	450,064
Plant and distribution systems	-	-	28,693,152	26,306,587	28,693,152	26,306,587
Construction in progress	469,085	30,784	1,198,592	2,166,547	1,667,677	2,197,331
Subtotal	12,558,240	11,260,654	32,632,474	30,833,312	45,190,714	42,093,966
Accumulated depreciation	(5,546,164)	(5,098,812)	(8,452,156)	(7,789,459)	(13,998,320)	(12,888,271)
Capital assets, net	<u>\$ 7,012,076</u>	<u>\$ 6,161,842</u>	<u>\$ 24,180,318</u>	<u>\$ 23,043,853</u>	<u>\$ 31,192,394</u>	<u>\$ 29,205,695</u>

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

**Long-Term Debt.** As of June 30, 2011, the Town had no bonded debt outstanding. The Town did have installment debt as follows:

**Town of Highlands' Long-Term Debt**

**Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Installment	\$ 710,456	\$ 196,272	\$ 1,429,840	\$ 720,624	\$ 2,140,296	\$ 916,896
Total debt	<u>\$ 710,456</u>	<u>\$ 196,272</u>	<u>\$ 1,429,840</u>	<u>\$ 720,624</u>	<u>\$ 2,140,296</u>	<u>\$ 916,896</u>

The Town of Highland's total debt increased by \$1,223,400 (133.43%) during the past fiscal year, primarily due to installment notes issued for police station renovations and water and sewer improvements.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Highlands is \$151,700,000.

Additional information regarding the Town of Highlands' long-term debt can be found in Note B of this report.

### **Budget Highlights for the Fiscal Year Ending June 30, 2012**

**Governmental Activities.** Overall, General Fund revenues are budgeted to be comparable to 2011 actual amounts, as are operating expenditures. The Town will use any increases in revenues to finance programs currently in place and to cover any unanticipated increases in expenditures.

**Business-Type Activities.** Overall, Enterprise Fund operations are budgeted to be comparable to 2011 actual results. The Town will continue to utilize grant revenues and loans to finance capital improvements. Any increases in revenues will be utilized to cover operating expenditures and future debt service.

### **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 Town Manager, Town of Highlands, P.O. Box 460, 210 North Fourth Street, Highlands, North Carolina 28741.

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Town of Highlands ABC Board
<b>Assets:</b>				
Cash and investments	\$ 1,859,106	\$ 2,018,275	\$ 3,877,381	\$ 311,330
Restricted Cash and investments	429,262	-	429,262	-
Taxes receivable, net	48,785	-	48,785	-
Accounts receivable, net	259,837	833,528	1,093,365	416
Internal balances	125,540	(125,540)	-	-
Prepaid items	-	-	-	2,417
Inventories	-	-	-	225,829
Capital assets:				
Land and construction in progress	584,439	1,597,632	2,182,071	-
Other capital assets, net of depreciation	6,427,637	22,582,686	29,010,323	315,230
Total assets	9,734,606	26,906,581	36,641,187	855,222
<b>Liabilities:</b>				
Accounts payable and accrued expenses	312,876	176,895	489,771	216,221
Sales tax payable	-	-	-	11,336
Customer deposits	-	17,808	17,808	-
Non-current liabilities:				
Due in less than one year	235,827	175,909	411,736	-
Due in more than one year	659,254	1,384,814	2,044,068	-
Total liabilities	1,207,957	1,755,426	2,963,383	227,557
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	6,712,094	22,750,478	29,462,572	315,230
Restricted for:				
Stabilization for State statute	411,884	-	411,884	-
Restricted for streets	18,788	-	18,788	-
Restricted for capital outlay	235,252	-	235,252	-
Working capital	-	-	-	294,397
Unrestricted	1,148,631	2,400,677	3,549,308	18,038
Total net assets	\$ 8,526,649	\$ 25,151,155	\$ 33,677,804	\$ 627,665

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

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs:	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 1,430,492	\$ 44,688	\$ 119,430	\$ -
Public safety	1,446,273	18,489	397,754	-
Transportation	890,207	-	54,407	-
Culture and recreation	777,449	54,758	532,495	-
Interest on long-term debt	5,306	-	-	-
Total governmental activities	<u>4,549,727</u>	<u>117,935</u>	<u>1,104,086</u>	<u>-</u>
<b>Business-Type Activities:</b>				
Water and Sewer Fund	2,370,672	1,915,473	-	778,969
Sanitation Fund	577,160	497,435	-	-
Electric Fund	3,525,317	3,816,985	-	-
Total business-type activities	<u>6,473,149</u>	<u>6,229,893</u>	<u>-</u>	<u>778,969</u>
Total primary government	<u>\$ 11,022,876</u>	<u>\$ 6,347,828</u>	<u>\$ 1,104,086</u>	<u>\$ 778,969</u>
<b>Component Unit:</b>				
Town of Highlands ABC Board	<u>\$ 1,659,598</u>	<u>\$ 1,674,595</u>	<u>\$ -</u>	<u>\$ -</u>

**General Revenues:**

Ad valorem taxes  
Local option sales tax  
Unrestricted intergovernmental  
Investment earnings, unrestricted  
Transfers  
Total general revenues and transfers

Change in net assets

**Net Assets:**

Beginning of year - July 1

End of year - June 30

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

**Exhibit B**

<u>Net Revenue (Expense) and Changes in Net Assets</u>			
<u>Primary Government</u>			<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Town of Highlands ABC Board</u>
\$ (1,266,374)	\$ -	\$ (1,266,374)	
(1,030,030)	-	(1,030,030)	
(835,800)	-	(835,800)	
(190,196)	-	(190,196)	
(5,306)	-	(5,306)	
<u>(3,327,706)</u>	<u>-</u>	<u>(3,327,706)</u>	
-	323,770	323,770	
-	(79,725)	(79,725)	
-	291,668	291,668	
<u>-</u>	<u>535,713</u>	<u>535,713</u>	
<u>(3,327,706)</u>	<u>535,713</u>	<u>(2,791,993)</u>	
			<u>\$ 14,997</u>
2,570,631	-	2,570,631	-
805,852	-	805,852	-
177,305	-	177,305	-
7,309	6,517	13,826	208
191,428	(191,428)	-	-
<u>3,752,525</u>	<u>(184,911)</u>	<u>3,567,614</u>	<u>208</u>
424,819	350,802	775,621	15,205
<u>8,101,830</u>	<u>24,800,353</u>	<u>32,902,183</u>	<u>612,460</u>
<u>\$ 8,526,649</u>	<u>\$ 25,151,155</u>	<u>\$ 33,677,804</u>	<u>\$ 627,665</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General Fund	Recreation Fund	Capital Project Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and investments	\$ 1,656,094	\$ -	\$ -	\$ 203,012	\$ 1,859,106
Restricted Cash and investments	18,788	-	410,474	-	429,262
Taxes receivable, net	48,785	-	-	-	48,785
Accounts receivable, net	214,333	44,850	-	654	259,837
Due from other funds	152,047	-	-	-	152,047
Total assets	<u>\$ 2,090,047</u>	<u>\$ 44,850</u>	<u>\$ 410,474</u>	<u>\$ 203,666</u>	<u>\$ 2,749,037</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable and accrued expenses	\$ 101,233	\$ 33,314	\$ 175,222	\$ 3,107	\$ 312,876
Due to other funds	-	26,507	-	-	26,507
Deferred revenues	48,785	-	-	-	48,785
Total liabilities	<u>150,018</u>	<u>59,821</u>	<u>175,222</u>	<u>3,107</u>	<u>388,168</u>
<b>Fund Balances:</b>					
Restricted:					
Stabilization by State statute	366,380	44,850	-	654	411,884
Restricted for streets	18,788	-	-	-	18,788
Restricted for capital outlay	-	-	235,252	-	235,252
Assigned for fire protection	-	-	-	199,905	199,905
Unassigned	1,554,861	(59,821)	-	-	1,495,040
Total fund balances	<u>1,940,029</u>	<u>(14,971)</u>	<u>235,252</u>	<u>200,559</u>	<u>2,360,869</u>
Total liabilities and fund balances	<u>\$ 2,090,047</u>	<u>\$ 44,850</u>	<u>\$ 410,474</u>	<u>\$ 203,666</u>	

**Amounts reported for governmental activities in the Statement of Net Assets (Exhibit A) are different due to the following items:**

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	7,012,076
Deferred revenues in the governmental funds are used to offset accounts receivable not expected to be available within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Assets.	48,785
Long- term liabilities, compensated absences, and other post-employment benefits are not due and payable in the current period and, therefore, not reported in the funds.	(828,729)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(66,352)
Net assets of governmental activities, per Exhibit A	<u>\$ 8,526,649</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	General	Recreation Fund	Capital Project Fund	Other Governmental Funds	Total
<b>Revenues:</b>					
Ad valorem taxes	\$ 2,580,690	\$ -	\$ -	\$ -	\$ 2,580,690
Other taxes and licenses	805,852	-	-	-	805,852
Unrestricted intergovernmental revenues	177,305	-	-	-	177,305
Restricted intergovernmental revenues	54,407	532,495	-	375,466	962,368
Permits and fees	35,294	-	-	-	35,294
Sales and services	69	51,783	-	-	51,852
Investment earnings	4,290	3	307	2,709	7,309
Contributions	6,525	-	-	15,763	22,288
Miscellaneous	119,430	2,975	9,325	18,489	150,219
Total revenues	<u>3,783,862</u>	<u>587,256</u>	<u>9,632</u>	<u>412,427</u>	<u>4,793,177</u>
<b>Expenditures:</b>					
Current:					
General government	1,416,144	-	-	-	1,416,144
Public safety	981,043	-	438,301	278,657	1,698,001
Transportation	1,543,188	-	-	-	1,543,188
Culture and recreation	-	721,355	-	-	721,355
Debt service	-	-	-	101,943	101,943
Total expenditures	<u>3,940,375</u>	<u>721,355</u>	<u>438,301</u>	<u>380,600</u>	<u>5,480,631</u>
Revenues over (under) expenditures	<u>(156,513)</u>	<u>(134,099)</u>	<u>(428,669)</u>	<u>31,827</u>	<u>(687,454)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers in (out)	23,328	115,000	53,100	-	191,428
Sale of capital assets	8,224	-	-	-	8,224
Long-term debt issued	-	-	610,821	-	610,821
Total other financing sources (uses)	<u>31,552</u>	<u>115,000</u>	<u>663,921</u>	<u>-</u>	<u>31,552</u>
Net change in fund balances	(124,961)	(19,099)	235,252	31,827	123,019
<b>Fund Balances:</b>					
Beginning of year - July 1	<u>2,064,990</u>	<u>4,128</u>	<u>-</u>	<u>168,732</u>	<u>2,237,850</u>
End of year - June 30	<u>\$ 1,940,029</u>	<u>\$ (14,971)</u>	<u>\$ 235,252</u>	<u>\$ 200,559</u>	<u>\$ 2,360,869</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

### RECONCILIATION OF THE STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

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

Net change in fund balances - total governmental funds (Exhibit D)	\$ 123,019
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	(10,059)
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. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortizes in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related accounts.	(514,184)
Compensated absences expense and net pension and OPEB obligations 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 statements.	(24,191)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	1,297,586
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	<u>(447,352)</u>
Change in net assets of governmental activities (Exhibit B)	<u>\$ 424,819</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance
	Original	Final		Over/Under
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,460,000	\$ 2,560,000	\$ 2,580,690	\$ 20,690
Other taxes and licenses	774,500	774,500	805,852	31,352
Unrestricted intergovernmental revenues	100,000	115,000	177,305	62,305
Restricted intergovernmental revenues	55,000	55,000	54,407	(593)
Permits and fees	22,000	22,000	35,294	13,294
Sales and services	-	-	69	69
Investment earnings	15,000	15,000	4,290	(10,710)
Contributions	4,500	4,500	6,525	2,025
Miscellaneous	105,000	128,858	119,430	(9,428)
Total revenues	<u>3,536,000</u>	<u>3,674,858</u>	<u>3,783,862</u>	<u>109,004</u>
<b>Expenditures:</b>				
Current:				
General government	1,297,585	1,357,585	1,416,144	(58,559)
Public safety	966,155	967,844	981,043	(13,199)
Transportation	1,505,900	1,540,900	1,543,188	(2,288)
Total expenditures	<u>3,769,640</u>	<u>3,866,329</u>	<u>3,940,375</u>	<u>(74,046)</u>
Revenues over (under) expenditures	<u>(233,640)</u>	<u>(191,471)</u>	<u>(156,513)</u>	<u>34,958</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	132,722	39,699	23,328	(16,371)
Sale of capital assets	-	-	8,224	8,224
Contingency	(119,082)	(68,228)	-	68,228
Appropriated fund balance	220,000	220,000	-	(220,000)
Total other financing sources (uses)	<u>233,640</u>	<u>191,471</u>	<u>31,552</u>	<u>(159,919)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(124,961)</u>	<u>\$ (124,961)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>2,064,990</u>	
End of year - June 30			<u>\$ 1,940,029</u>	

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

RECREATION FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Over/Under</u>
<b>Revenues:</b>				
Restricted intergovernmental revenues	\$ 500,000	\$ 500,000	\$ 532,495	\$ 32,495
Sales and services	39,000	39,000	51,783	12,783
Investment earnings	1,000	1,000	3	(997)
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>2,975</u>	<u>975</u>
Total revenues	<u>542,000</u>	<u>542,000</u>	<u>587,256</u>	<u>45,256</u>
<b>Expenditures:</b>				
Current:				
Culture and recreation	<u>727,400</u>	<u>727,400</u>	<u>721,355</u>	<u>6,045</u>
Total expenditures	<u>727,400</u>	<u>727,400</u>	<u>721,355</u>	<u>6,045</u>
Revenues over (under) expenditures	<u>(185,400)</u>	<u>(185,400)</u>	<u>(134,099)</u>	<u>51,301</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	<u>185,400</u>	<u>185,400</u>	<u>115,000</u>	<u>(70,400)</u>
Total other financing sources (uses)	<u>185,400</u>	<u>185,400</u>	<u>115,000</u>	<u>(70,400)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(19,099)</u>	<u>\$ (19,099)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>4,128</u>	
End of year - June 30			<u>\$ (14,971)</u>	

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Enterprise Funds</u>			
	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Sanitation Fund</u>	
<b>Assets:</b>				
Current assets:				
Cash and investments	\$ 647,046	\$ 1,371,229	\$ -	\$ 2,018,275
Accounts receivable, net	378,625	394,825	60,078	833,528
Total current assets	<u>1,025,671</u>	<u>1,766,054</u>	<u>60,078</u>	<u>2,851,803</u>
Capital assets:				
Land and construction in progress	1,597,632	-	-	1,597,632
Other capital assets, net of depreciation	21,099,752	1,387,177	95,757	22,582,686
Capital assets, net	<u>22,697,384</u>	<u>1,387,177</u>	<u>95,757</u>	<u>24,180,318</u>
Total assets	<u>23,723,055</u>	<u>3,153,231</u>	<u>155,835</u>	<u>27,032,121</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued expenses	74,684	76,847	25,364	176,895
Accrued vacation	39,216	45,945	15,493	100,654
Due to other funds	-	-	125,540	125,540
Customer deposits	5,210	12,598	-	17,808
Current portion of long-term debt	75,255	-	-	75,255
Total current liabilities	<u>194,365</u>	<u>135,390</u>	<u>166,397</u>	<u>496,152</u>
Non-current liabilities:				
Other post-employment benefits	13,745	11,604	4,880	30,229
Long-term debt	1,354,585	-	-	1,354,585
Total non-current liabilities	<u>1,368,330</u>	<u>11,604</u>	<u>4,880</u>	<u>1,384,814</u>
Total liabilities	<u>1,562,695</u>	<u>146,994</u>	<u>171,277</u>	<u>1,880,966</u>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	21,267,544	1,387,177	95,757	22,750,478
Unrestricted	892,816	1,619,060	(111,199)	2,400,677
Total net assets	<u>\$ 22,160,360</u>	<u>\$ 3,006,237</u>	<u>\$ (15,442)</u>	<u>\$ 25,151,155</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	<b>Business-Type Activities</b>			
	<b>Enterprise Funds</b>			
	<b>Water and Sewer Fund</b>	<b>Electric Fund</b>	<b>Sanitation Fund</b>	<b>Total</b>
<b>Operating Revenues:</b>				
Charges for services	\$ 1,832,383	\$ 3,534,961	\$ 497,282	\$ 5,864,626
Other operating revenues	83,090	282,024	153	365,267
Total operating revenues	<u>1,915,473</u>	<u>3,816,985</u>	<u>497,435</u>	<u>6,229,893</u>
<b>Operating Expenses:</b>				
Operations	1,843,975	3,401,169	565,308	5,810,452
Depreciation	526,697	124,148	11,852	662,697
Total operating expenses	<u>2,370,672</u>	<u>3,525,317</u>	<u>577,160</u>	<u>6,473,149</u>
Operating income (loss)	<u>(455,199)</u>	<u>291,668</u>	<u>(79,725)</u>	<u>(243,256)</u>
<b>Non-Operating Revenues (Expenses):</b>				
Investment earnings	366	6,151	-	6,517
Total non-operating revenues	<u>366</u>	<u>6,151</u>	<u>-</u>	<u>6,517</u>
Income (loss) before capital contributions and transfers	<u>(454,833)</u>	<u>297,819</u>	<u>(79,725)</u>	<u>(236,739)</u>
Capital contributions	<u>778,969</u>	<u>-</u>	<u>-</u>	<u>778,969</u>
<b>Transfers:</b>				
Transfers from General Fund	55,070	-	29,953	85,023
Transfers from Electric Fund	90,534	-	-	90,534
Transfer to General Fund	-	(276,451)	-	(276,451)
Transfers to Water and Sewer Fund	-	(90,534)	-	(90,534)
Total transfers	<u>145,604</u>	<u>(366,985)</u>	<u>29,953</u>	<u>(191,428)</u>
Change in net assets	469,740	(69,166)	(49,772)	350,802
<b>Net Assets:</b>				
Beginning of year - July 1	<u>21,690,620</u>	<u>3,075,403</u>	<u>34,330</u>	<u>24,800,353</u>
End of year - June 30	<u>\$ 22,160,360</u>	<u>\$ 3,006,237</u>	<u>\$ (15,442)</u>	<u>\$ 25,151,155</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Enterprise Funds</u>			
	<u>Water and Sewer Fund</u>	<u>Electric Fund</u>	<u>Sanitation Fund</u>	
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 2,050,025	\$ 3,793,761	\$ 533,824	\$ 6,377,610
Cash paid to employees	(776,575)	(682,062)	(295,479)	(1,754,116)
Customer deposits received	(105)	-	-	(105)
Cash paid for goods and services	(1,030,893)	(2,907,523)	(268,298)	(4,206,714)
Net cash provided (used) by operating activities	<u>242,452</u>	<u>204,176</u>	<u>(29,953)</u>	<u>416,675</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Transfers in (out)	<u>145,604</u>	<u>(366,985)</u>	<u>29,953</u>	<u>(191,428)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets	(1,582,582)	(216,579)	-	(1,799,161)
Proceeds from issuance of debt - ARRA	778,970	-	-	778,970
Debt principal	(69,754)	-	-	(69,754)
Federal and State grants	778,969	-	-	778,969
Net cash provided (used) by capital and related financing activities	<u>(94,397)</u>	<u>(216,579)</u>	<u>-</u>	<u>(310,976)</u>
<b>Cash Flows from Investing Activities:</b>				
Interest on investments	<u>366</u>	<u>6,151</u>	<u>-</u>	<u>6,517</u>
Net increase (decrease) in cash and cash equivalents	294,025	(373,237)	-	(79,212)
<b>Cash and Cash Equivalents:</b>				
Beginning of year - July 1	<u>353,021</u>	<u>1,744,466</u>	<u>-</u>	<u>2,097,487</u>
End of year - June 30	<u>\$ 647,046</u>	<u>\$ 1,371,229</u>	<u>\$ -</u>	<u>\$ 2,018,275</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (455,199)	\$ 291,668	\$ (79,725)	\$ (243,256)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	526,697	124,148	11,852	662,697
<b>Changes in Assets and Liabilities:</b>				
(Increase) decrease in accounts receivable	134,550	(23,224)	(2,436)	108,890
(Increase) decrease in OPEB liability	6,908	6,030	2,489	15,427
Increase (decrease) in accounts payable and accrued liabilities	29,601	(194,446)	37,867	(126,978)
Increase (decrease) in customer deposits	<u>(105)</u>	<u>-</u>	<u>-</u>	<u>(105)</u>
Net cash provided (used) by operating activities	<u>\$ 242,452</u>	<u>\$ 204,176</u>	<u>\$ (29,953)</u>	<u>\$ 416,675</u>

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

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011**

	<b><u>Private-Purpose Trust Funds</u></b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 1,022,707
Accounts receivable	222
Due from component unit	<u>2,832</u>
Total assets	<u><u>\$ 1,025,761</u></u>
<b>Net Assets:</b>	
Held in trust for other purposes	<u><u>\$ 1,025,761</u></u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Private-Purpose Trust Funds</u>
<b>Additions:</b>	
Investment earnings	\$ 1,614
Contributions	68,620
ABC profit distribution	4,341
Miscellaneous	2,720
Total additions	<u>77,295</u>
<b>Deductions:</b>	
Cemetery	36,931
Scholarship	<u>37,873</u>
Total deductions	<u>74,804</u>
Net increase (decrease) in fiduciary net assets	2,491
<b>Net Assets:</b>	
Beginning of year - July 1	<u>1,023,270</u>
End of year - June 30	<u>\$ 1,025,761</u>

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Highlands (the "Town") and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

#### A. Reporting Entity

The Town is a municipal corporation, which is governed by an elected Mayor and a five-member Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

#### Component Unit - Town of Highlands ABC Board

The Town of Highlands Alcoholic Beverage Control Board ("ABC Board") is governed by a board appointed by the Town's Board of Commissioners. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Highlands ABC Board, PO Box 1345, 81 Highlands Plaza, Highlands, North Carolina 28741.

#### 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, except for fiduciary activities. 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.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

*Fund Financial Statements.* The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – 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 Town reports the following major governmental funds:

### **General Fund**

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

### **Recreation Special Revenue Fund**

The Recreation Special Revenue Fund is used to account for revenues and expenditures related to the provision of recreation services.

### **Capital Project Fund**

The Town maintains one Capital Project Fund, which is used to account for construction of, or major improvements to, assets used for governmental activities.

The Town reports the following non-major governmental fund:

### **Fire Special Revenue Fund**

Special revenue funds account for specific revenue sources that are restricted for specified purposes. The Town maintains one non-major Special Revenue Fund, the Fire Department Fund.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The Town reports all its enterprise funds as major:

### **Enterprise Funds**

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

The Town has three enterprise funds: the Water and Sewer Fund, the Electric Fund, and the Sanitation Fund. The water and sewer capital projects are consolidated with the Water and Sewer Fund for financial reporting purposes.

The Town has one water and sewer capital project. The Consolidated Water and Sewer Project.

The Town reports the following fiduciary fund types:

### **Private Purpose Trust Funds**

Private purpose trust funds are used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The Town maintains two private purpose trust funds: the Scholarship Fund and the Cemetery Fund. Under the terms of the trust, the scholarship committee, with the approval of the Town's Board, may expend annually the investment income and possibly all or a portion of the principal of the Scholarship Fund to graduates of Highlands High School who are furthering their education in colleges, universities, or vocational training schools. The Cemetery Fund allows the Town to collect perpetual fees, lot and marker fees, and other contributions for the maintenance of the Highlands Cemetery.

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

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

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

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

Sales taxes 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. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Grant revenues that are unearned at year-end are recorded as deferred revenues.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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.

All governmental and business-type activities and enterprise funds of the Town follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

### **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, Recreation Fund, the Fire Department Fund, and the enterprise funds. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Capital Project Fund and the Water and Sewer Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds. The Town Manager is authorized to transfer any amount within a department without amendment. Any revisions that alter the total expenditures of a department or fund require approval of the Town Commissioners. During the year, several amendments to the original budget were necessary, the effects of which were material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

### **E. Assets, Liabilities, and Fund Equity**

#### **Deposits and Investments**

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 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), an SEC-registered mutual fund.

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011**

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

### **Cash and Cash Equivalents**

The Town pools monies 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.

### **Restricted Assets**

The unexpended debt proceeds of the Governmental Capital Project Fund installment note issued by the Town are classified as restricted assets for the Governmental Capital Project Fund because their use is completely restricted to the purpose for which the installment note was originally issued. 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.

### **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 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, 2010.

### **Inventory**

The Town's General Fund and Proprietary Fund inventory consists of expendable supplies that are recorded as expenditures when purchased.

### **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.

### **Prepaid Items**

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.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Capital Assets

The Town has adopted a minimum capitalization threshold of \$5,000. Capital assets are recorded at original cost. Donated assets are listed at the market value at the date of donation. Also, the Town has elected not to capitalize those interest costs that are incurred during the construction period of capital assets.

Certain items acquired before July 1, 1981, are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when capital assets are considered as a whole.

In conjunction with implementing GASB 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold will be reported as capital assets in the Statement of Net Assets. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Assets only include assets purchased after July 1, 2003.

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

<u>Asset</u>	<u>Estimated Useful Lives</u>
Buildings and other improvements	35-50 years
Equipment and vehicles	3-10 years
Plant and distributions systems	35-50 years
Recreation facilities	35-50 years
Infrastructure	50 years

### Long-Term Obligations

In the government-wide financial statements and proprietary fund type 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 which 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.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

In the 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.

### **Compensated Absences**

The vacation policies of the Town provide for the accumulation of up to twenty to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary related payments are recorded as the leave is earned on a first-in, first-out basis. The portion of time 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 amount of earned sick leave. Sick leave does not vest, but unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

### **Net Assets/Fund Balances**

#### **Net Assets**

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

#### **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.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The governmental fund types classify fund balances as follows:

### **Non-Spendable 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 in tact.

### **Restricted Fund Balance**

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

*Stabilization by State statute* - portion of fund balance that is not an available resource for appropriation in accordance with State law [G.S. 159-8(a)].

*Restricted for streets* - represents unexpended grant funds whose use is completely restricted to the purposes for which the grant and State appropriation were awarded/appropriated.

*Restricted for capital outlay* – represents unexpended debt proceeds whose use is completely restricted to the purposes for which the loan was awarded/appropriated.

### **Committed Fund Balance**

This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's governing body (highest level of decision making authority, the Town Council). Any changes or removal of specific purpose restrictions requires majority action by the governing body.

### **Assigned Fund Balance**

Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager and Finance Officer, as granted in the officially adopted budget ordinance, have been granted limited authority to assign fund balance.

*Assigned for fire protection* - portion of fund balance budgeted by the Board for fire department operations.

### **Unassigned Fund Balance**

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes within the General Fund.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, State funds, local funds, and Town 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 Town or when required by grant or other contractual agreements.

The Town has not officially adopted a fund balance policy.

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	\$ 1,940,029
Less:	
Stabilization by State statute	<u>366,380</u>
Total available fund balance	<u>\$ 1,573,649</u>

### F. Stewardship, Compliance, and Accountability

#### Non-compliance with North Carolina General Statutes

The Town's original budget was not adopted in accordance with State Law [G.S. 159-8(a)]. State law requires that each local government shall operate under an annual balanced budget ordinance adopted and administered in accordance with this article. The Town has corrected this matter and has established a balanced budget.

#### Deficit in Fund Balance and Net Assets of Individual Funds

The Recreation Fund reported a deficit fund balance of \$14,971 at June 30, 2011. The Sanitation Fund reported a deficit in net assets of \$15,442. The Town will correct these deficits in fund balance and net assets with a transfer in the upcoming year.

#### Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2011, the expenditures made in the Town's General Fund exceeded the authorized appropriations as follows: governing body by \$59,494, police by \$13,199, streets and highways by \$2,288. Expenditures made in the Sanitation Fund exceeding authorized appropriations by \$25,400. Expenditures made in the Electric Fund exceeded authorized appropriations by \$305,598. Expenditures made in the Water and Sewer Fund exceeded authorized appropriations by \$56,054. These over expenditures occurred because of inadequate monitoring of budget versus actual reports. Management and the Board will more closely review the budget reports to ensure compliance in future years.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

### G. Revenues, Expenditures, and Expenses

#### Compensated Absences

The vacation policy of the Town allows for the accumulation of vacation leave, up to 240 hours per employee as well as the accumulation of comp time, up to 80 hours per employee. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences is recorded as the leave is earned.

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.

#### On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2011, the Town has recognized on-behalf payments for pension contributions made by the State as revenue and an expenditure of \$2,940 for the 27 firemen who perform firefighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and State appropriation.

### H. Comparative Data/Reclassifications

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not prove an enhanced understanding of the Town's financial position and operations or would cause the statements to be unduly complex or difficult to understand. Also, certain amounts presented in the prior year data have been reclassified to be consistent with the current year's presentation.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### 2. Detail Notes On All Funds

#### A. Assets

##### Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. 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 with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, 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 policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$5,329,350 and a bank balance of \$5,494,823. Of the bank balance, \$851,033 was covered by federal depository insurance and \$4,643,790 was covered by collateral held under the Pooling Method.

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Receivables - Allowances for Doubtful Accounts**

The receivables shown in Exhibit A at June 30, 2011 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due From Other Governments</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General Fund	\$ 13,493	\$ 78,785	\$ 200,840	\$ 293,118
Special revenue funds	37,495	-	8,009	45,504
Allowance for doubtful accounts	-	(30,000)	-	(30,000)
Total governmental activities	<u>\$ 50,988</u>	<u>\$ 48,785</u>	<u>\$ 208,849</u>	<u>\$ 308,622</u>
<b>Business-Type Activities:</b>				
Water and Sewer Fund	\$ 378,625	\$ -	\$ -	\$ 378,625
Electric Fund	394,825	-	-	394,825
Sanitation Fund	60,078	-	-	60,078
Total business-type activities	<u>\$ 833,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 833,528</u>

Due from other governments consisted of the following:

Local option sales tax	\$ 134,334
Franchise tax	23,577
Sales tax reimbursement	50,938
Total	<u>\$ 208,849</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Governmental Capital Assets

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

#### Capital Assets Not Being Depreciated:

Land	\$ 115,354	\$ -	\$ -	\$ 115,354
Construction in progress	30,784	438,301	-	469,085
Total capital Assets not being depreciated	<u>146,138</u>	<u>438,301</u>	<u>-</u>	<u>584,439</u>

#### Capital Assets Being Depreciated:

Building and improvements	4,085,222	89,993	-	4,175,215
Equipment and vehicles	3,743,993	288,953	-	4,032,946
Recreation facilities	2,835,237	9,450	-	2,844,687
Infrastructure	450,064	470,889	-	920,953
Total capital assets being depreciated	<u>11,114,516</u>	<u>859,285</u>	<u>-</u>	<u>11,973,801</u>

#### Less Accumulated Depreciation:

Buildings and improvements	1,841,886	60,554	-	1,902,440
Equipment and vehicles	663,071	319,254	-	982,325
Recreation facilities	2,555,884	47,047	-	2,602,931
Infrastructure	37,971	20,497	-	58,468
Total accumulated depreciation	5,098,812	<u>\$ 447,352</u>	<u>\$ -</u>	5,546,164
Total depreciable assets, net	<u>6,015,704</u>			<u>6,427,637</u>

Capital assets, net	<u>\$ 6,161,842</u>			<u>\$ 7,012,076</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

#### Governmental Activities:

General government	\$ 63,842
Public safety	199,860
Transportation	101,725
Environmental protection	9,237
Cultural and recreational	72,688
Total	<u>\$ 447,352</u>

#### Business-Type Activities:

Water and Sewer Fund	\$ 526,097
Electric Fund	124,148
Sanitation Fund	11,852
Total	<u>\$ 662,097</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Proprietary Capital Assets

The capital assets of the proprietary funds of the Town at June 30, 2011 are as follows:

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2011</u>
<b>Business-Type Activities:</b>					
<b>Water and Sewer Fund:</b>					
<b>Capital Assets Not Being Depreciated:</b>					
Land	\$ 399,040	\$ -	\$ -	\$ -	\$ 399,040
Construction in progress	2,166,547	1,418,610	-	(2,386,565)	1,198,592
Total capital assets not being depreciated	<u>2,565,587</u>	<u>1,418,610</u>	<u>-</u>	<u>(2,386,565)</u>	<u>1,597,632</u>
<b>Capital Assets Being Depreciated:</b>					
Plant and distribution systems	24,328,651	-	-	2,386,565	26,715,216
Equipment and vehicles	657,024	163,972	-	-	820,996
Total capital assets being depreciated	<u>24,985,675</u>	<u>163,972</u>	<u>-</u>	<u>2,386,565</u>	<u>27,536,212</u>
<b>Less Accumulated Depreciation:</b>					
Plant and distribution systems	5,440,311	488,855	-	-	5,929,166
Equipment and vehicles	469,453	37,842	-	-	507,295
Total accumulated depreciation	<u>5,909,764</u>	<u>\$ 526,697</u>	<u>\$ -</u>	<u>\$ -</u>	<u>6,436,461</u>
Total capital assets being depreciated, net	<u>19,075,911</u>				<u>21,099,752</u>
Water and sewer capital assets, net	<u>21,641,498</u>				<u>22,697,384</u>
<b>Electric Fund:</b>					
<b>Capital Assets Being Depreciated:</b>					
Plant and distribution systems	1,977,936	\$ -	\$ -	\$ -	1,977,936
Equipment and vehicles	1,192,794	216,579	-	-	1,409,373
Total capital assets being depreciated	<u>3,170,730</u>	<u>216,579</u>	<u>-</u>	<u>-</u>	<u>3,387,309</u>
<b>Less Accumulated Depreciation:</b>					
Plant and distribution systems	924,926	39,559	-	-	964,485
Equipment and vehicles	951,058	84,589	-	-	1,035,647
Total accumulated depreciation	<u>1,875,984</u>	<u>\$ 124,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2,000,132</u>
Electric capital assets, net	<u>1,294,746</u>				<u>1,387,177</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2011</u>
<b>Sanitation Fund:</b>					
<b>Capital Assets Being Depreciated:</b>					
Equipment and vehicles	111,320	\$ -	\$ -	\$ -	111,320
Total capital assets being depreciated	<u>111,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,320</u>
<b>Less Accumulated Depreciation:</b>					
Equipment and vehicles	3,711	11,852	-	-	15,563
Total accumulated depreciation	<u>3,711</u>	<u>\$ 11,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>15,563</u>
Sanitation capital assets, net	<u>107,609</u>				<u>95,757</u>
Business-type activities capital assets, net	<u>\$ 23,043,853</u>				<u>\$ 24,180,318</u>

**Invested in Capital Assets, Net of Debt**

The total invested in capital assets, net of related debt at June 30, 2011, is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 7,012,076	\$ 24,180,318
Long-term debt	(710,456)	(1,429,840)
Unspent debt proceeds	<u>410,474</u>	<u>-</u>
Invested in capital assets, net of related debt	<u>\$ 6,712,094</u>	<u>\$ 22,750,478</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### B. Liabilities

#### Payables

Payables at Exhibit A at June 30, 2011 were as follows:

	<b>Vendors</b>	<b>Salaries and Benefits</b>	<b>Total</b>
<b>Governmental Activities:</b>			
General Fund	\$ 54,294	\$ 46,939	\$ 101,233
Special revenue funds	18,920	17,501	36,421
Capital project funds	175,222	-	175,222
Total governmental activities	\$ 248,436	\$ 64,440	\$ 312,876
<b>Business-Type Activities:</b>			
Water and Sewer Fund	\$ 59,491	\$ 15,193	\$ 74,684
Electric Fund	64,398	12,449	76,847
Sanitation Fund	19,585	5,779	25,364
Total business-type activities	\$ 143,474	\$ 33,421	\$ 176,895

#### Pension Plan Obligations

##### Local Government Employees' Retirement System

**Plan Description.** The Town contributes to the State-wide 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 LGERS 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 6.35% and 6.41%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$169,841, \$122,805, and \$117,581, respectively.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Law Enforcement Officers' Special Separation Allowance

**Plan Description.** The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, membership consisted of:

Retirees receiving benefits	2
Active plan members	<u>13</u>
Total	<u><u>15</u></u>

A separate statement was not issued for the plan.

### Summary of Significant Accounting Policies

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2009 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 ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-retirement benefit increases. The unfunded actuarial accrued liability is being amortized as a level percent of pay on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

Employer annual required contribution	\$	21,940
Interest on net pension obligation		3,154
Adjustment to annual required contribution		<u>(3,377)</u>
Annual pension cost		21,717
Contributions made		<u>18,444</u>
Increase (decrease) in net pension obligation		3,273
 <b>Net Pension Obligation:</b>		
Beginning of year - July 1		<u>63,079</u>
 End of year - June 30	 \$	 <u><u>66,352</u></u>

### Three-Year Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 15,779	100.02%	\$ 63,209
2010	18,314	100.71%	63,079
2011	21,717	84.93%	66,352

**Funded Status and Funding Progress.** As of December 31, 2010, the Plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$146,514. The covered payroll (annual payroll of active employees covered by the plan) was \$482,470, and the ratio of the UAAL to the covered payroll was 30.37 percent.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### **Supplemental Retirement Income Plan for Law Enforcement Officers**

**Plan Description.** The Town contributes to the Supplemental Retirement Income Plan (the "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 Plan 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, 2011 were \$30,956, which consisted of \$21,754 from the Town and \$9,202 from the law enforcement officers.

### **Firemen's and Rescue Squad Workers' Pension Fund**

**Plan Description.** The State of North Carolina contributes, on behalf of the Town, to the Firemen's and Rescue Squad Workers' Pension Fund (the "Fund"), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Fund 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 the Fund. This 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 \$10 per month to the Fund. The State, a non-employer contributor, funds the Plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of Plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Post-Employment Benefits

#### Healthcare Benefits:

**Plan Description.** Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan. According to a Town resolution, the Town allows employees who retire under the provisions of the North Carolina Local Government Retirement System (LGERS) to participate in the Town's health care plan upon retirement, until they become eligible for Medicare. Retirees must pay the full blended rate premium for health coverage. Also, retirees can purchase coverage for their dependents at the Town's group rates if the dependent was enrolled at the time of the employee's retirement. Dependent coverage terminates upon death of the retiree, when the retiree becomes eligible for Medicare, or when the dependent becomes eligible for Medicare. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the health care plan consisted of the following at December 31, 2008, the date of the latest actuarial valuation:

Retired members	2
Active members:	
General employees	46
Law enforcement	12
Total	<u>60</u>

**Funding Policy.** Retirees must pay the full blended rate premium for health coverage for both themselves and eligible dependents. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The current ARC rate is 1.5% of annual covered payroll. For the current year, the Town made no contributions.

**Summary of Significant Accounting Policies.** Post-employment expenditures are made from the fund the employee was assigned to prior to retirement. These respective funds are 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 Town'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.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

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

Annual required contribution	\$	36,596
Interest on net OPEB obligation		1,464
Adjustment to annual required contribution		<u>(1,264)</u>
Annual OPEB cost (expense)		36,796
Contributions made		<u>-</u>
Increase (decrease) in net OPEB obligation		36,796
 <b>Net OPEB Obligation:</b>		
Beginning of year - July 1		<u>36,596</u>
End of year - June 30	\$	<u><u>73,392</u></u>

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

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ <u>36,596</u>	<u>0.00%</u>	\$ <u>36,596</u>
2011	\$ <u><u>36,796</u></u>	<u><u>0.00%</u></u>	\$ <u><u>73,392</u></u>

**Funded Status and Funding Progress.** As of December 31, 2008, the Plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$295,008. The covered payroll (annual payroll of active employees covered by the Plan) was \$2,441,747, and the ratio of the UAAL to the covered payroll was 12.1%. 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

**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, 2008 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. Both rates included a 3.75 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2008 was 30 years.

### **Other Employment Benefits**

The Town has elected to provide death benefits to employees engaged in law enforcement through the Death Trust Plan for Members of the Local Governmental Employees' Retirement System (Death Trust Plan), a multiple-employer, State-administered cost-sharing plan funded on a one-year term cost basis. 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 his/her death, but the benefit must be between \$25,000 and \$50,000. All death benefit payments are made from the Death Trust Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Because the benefit payments are made by the Death Trust Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2011, the Town made contributions to the State for death benefits of \$390. The Town's required contributions represented .14 percent of covered payroll. The contributions to the Death Trust Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Deferred/Unearned Revenues

The balance in deferred revenues on the fund statements and unearned revenues on the government-wide statements at June 30, 2011 is composed of the following elements:

	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
Taxes receivable, net	\$ 48,785	\$ -

### 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 one self-funded risk financing pool administered by the North Carolina League of Municipalities. Through this pool, the Town has workers' compensation coverage that provides for coverage up to the statutory limits. The pool is reinsured through commercial companies for single occurrence claims of more than \$300,000.

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

The Town does not carry flood insurance.

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

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Long-Term Obligations**

**Governmental Activities:**

Installment purchase contracts at June 30, 2011 are comprised of the following:

Installment purchase contract for the purchase of a fire ladder truck (collateralized by the truck). The note is payable in six semi-annual payments on May 15 and November 15 of \$50,972, including interest at a rate of 3.08%.	\$ 99,635
Installment purchase contract for the renovations of the Highlands Police Department (collateralized by the building). The note is payable in semi-annual payments on August 3 and February 3 of a fixed principal amount of \$30,541.05. The Town will also pay interest at a rate of 3.07%.	<u>610,821</u>
Total long-term obligations - governmental activities	<u>\$ 710,456</u>

Annual debt service requirements to maturity are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 160,717	\$ 20,590
2013	61,082	16,408
2014	61,082	14,533
2015	61,082	12,658
2016	61,082	10,783
2017-2021	<u>305,411</u>	<u>25,784</u>
Total	<u>\$ 710,456</u>	<u>\$ 100,756</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Business-Type Activities:**

**Water and Sewer Fund**

Federal revolving loan for the construction of Mirror Lake Sewer Improvements. The loan has a maximum amount of \$1,395,072. The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free. \$ 1,082,372

Federal revolving loan for the construction of Pine Street Stormwater Improvements. The loan has a maximum amount of \$746,517. The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free. 347,468

Total installment debt, Water and Sewer Fund \$ 1,429,840

Annual debt service requirements to maturity are as follows:

<b>Year Ending June 30</b>	<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2012	\$ 75,255	\$ -
2013	75,255	-
2014	75,255	-
2015	75,255	-
2016	75,255	-
2017-2021	376,275	-
2022-2026	376,275	-
2027-2030	301,015	-
Total	<u>\$ 1,429,840</u>	<u>\$ -</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Changes in General Long-Term Obligations**

	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>	<u>Due in Less than One Year</u>
<b>Governmental Activities:</b>					
Installment purchase contracts	\$ 196,272	\$ 610,821	\$ 96,637	\$ 710,456	\$ 160,717
Net pension obligation	63,079	21,717	18,444	66,352	-
Other post-employment benefits	21,794	21,369	-	43,163	-
Accrued vacation	75,561	75,600	76,051	75,110	75,110
Total governmental activities	\$ 356,706	\$ 729,507	\$ 191,132	\$ 895,081	\$ 235,827
<b>Business-Type Activities:</b>					
Installment debt	\$ 720,624	\$ 778,970	\$ 69,754	\$ 1,429,840	\$ 75,255
Other post-employment benefits	14,802	15,427	-	30,229	-
Accrued vacation	99,988	101,300	100,634	100,654	100,654
Total business-type activities	\$ 835,414	\$ 895,697	\$ 170,388	\$ 1,560,723	\$ 175,909

Compensated absences will be liquidated in the General Fund and are accounted for on a FIFO basis. Net pension obligation has been liquidated in the General Fund.

At June 30, 2011, the Town of Highlands had a legal debt margin of approximately \$151,700,000.

**C. Interfund Balances and Activity**

**Transfers To/From Other Funds**

Transfers to/from other funds for the year ended June 30, 2011 are as follows:

<u>Fund</u>	<u>To</u>	<u>From</u>
General Fund	\$ 276,451	\$ 253,123
Recreation Fund	115,000	-
Capital Project Fund	53,100	-
Electric Fund	-	366,985
Water and Sewer Fund	145,604	-
Sanitation Fund	29,953	-
Total	\$ 620,108	\$ 620,108

Transfers were to finance capital activities and for operating purposes.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011

### Due From/To Other Funds

Interfund balances as of June 30, 2011 are as follows:

<u>Fund</u>	<u>Receivable Fund</u>	<u>Payable Fund</u>
General Fund	\$ 152,047	\$ -
Recreation Fund	-	26,507
Sanitation Fund	-	125,540
	<u>\$ 152,047</u>	<u>\$ 152,047</u>

Amounts are due to the General Fund from the recreation and sanitation funds for operating purposes.

### 3. Summary Disclosures 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 agreement. Such audits could result in the refund of grant monies 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 monies.

### 4. Claims and Judgments

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a % of Covered Payroll ((B-A)/C)</u>
12/31/2000	\$ -	\$ 63,166	\$ 63,166	0.00%	\$ 219,397	28.79%
12/31/2001	-	57,934	57,934	0.00%	222,761	26.01%
12/31/2002	-	70,212	70,212	0.00%	297,096	23.63%
12/31/2003	-	80,468	80,468	0.00%	260,603	30.88%
12/31/2004	-	94,281	94,281	0.00%	298,933	31.54%
12/31/2005	-	110,096	110,096	0.00%	389,569	28.26%
12/31/2006	-	130,573	130,573	0.00%	385,927	33.83%
12/31/2007	-	143,950	143,950	0.00%	421,163	34.18%
12/31/2008	-	157,409	157,409	0.00%	486,026	32.39%
12/31/2009	-	199,556	199,556	0.00%	498,845	40.00%
12/31/2010	-	146,514	146,514	0.00%	482,470	30.37%

## TOWN OF HIGHLANDS, NORTH CAROLINA

LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2002	\$ 6,808	0.00%
2003	6,808	0.00%
2004	8,566	0.00%
2005	9,213	0.00%
2006	10,324	0.00%
2007	11,373	0.00%
2008	13,583	0.00%
2009	15,061	0.00%
2010	17,713	0.00%
2011	21,940	0.00%

**Notes to the Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	Ranges from 4.25% - 7.85%
*Includes inflation at	3.00%
Cost-of-living adjustments	None

## TOWN OF HIGHLANDS, NORTH CAROLINA

OTHER POST-EMPLOYMENT BENEFITS -  
 RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
12/31/2008	\$ -	\$ 295,008	\$ 295,008	0.00%	\$ 2,441,747	12.1%

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution (ARC)</u>	<u>Amount Contributed By Employer</u>	<u>Percentage of ARC Contributed</u>
2011	\$ 36,797	\$ -	0.00%
2010	36,596	-	0.00%

**Notes to the Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2008
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of pay open
Remaining amortization period	30 Years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	10.5% - 5.00%
Year of ultimate trend rate	2016

\* Includes inflation at 3.75%

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Taxes	\$ 2,550,000	\$ 2,566,923	\$ 16,923	\$ 2,520,275
Penalties and interest	10,000	13,767	3,767	9,257
Total ad valorem taxes	<u>2,560,000</u>	<u>2,580,690</u>	<u>20,690</u>	<u>2,529,532</u>
<b>Other Taxes and Licenses:</b>				
Privilege licenses	4,500	6,103	1,603	7,478
Local option sales tax	770,000	799,749	29,749	767,140
Total other taxes and licenses	<u>774,500</u>	<u>805,852</u>	<u>31,352</u>	<u>774,618</u>
<b>Unrestricted Intergovernmental Revenues:</b>				
Franchise tax	115,000	174,936	59,936	100,583
Gasoline tax refunds	-	2,369	2,369	13,426
ABC profit distribution	-	-	-	34,152
Total unrestricted intergovernmental revenues	<u>115,000</u>	<u>177,305</u>	<u>62,305</u>	<u>148,161</u>
<b>Restricted Intergovernmental Revenues:</b>				
Powell Bill allocation	50,000	54,407	4,407	54,078
Other grants	-	-	-	9,920
ABC profits for law enforcement	5,000	-	(5,000)	5,582
Total restricted intergovernmental revenues	<u>55,000</u>	<u>54,407</u>	<u>(593)</u>	<u>69,580</u>
<b>Permits and Fees:</b>				
Zoning permits	7,000	22,654	15,654	8,745
Antenna fees	15,000	12,640	(2,360)	9,590
Total permits and fees	<u>22,000</u>	<u>35,294</u>	<u>13,294</u>	<u>18,335</u>
<b>Sales and Services:</b>				
Court costs and fees	-	69	69	161
Total sales and services	<u>-</u>	<u>69</u>	<u>69</u>	<u>161</u>
<b>Investment earnings</b>	<u>15,000</u>	<u>4,290</u>	<u>(10,710)</u>	<u>14,724</u>
<b>Contributions</b>	<u>4,500</u>	<u>6,525</u>	<u>2,025</u>	<u>-</u>
<b>Miscellaneous:</b>				
Administrative costs allocated	67,000	67,000	-	67,000
Hospital insurance reimbursement	33,000	15,194	(17,806)	29,952
Other	28,858	37,236	8,378	120,749
Total miscellaneous	<u>128,858</u>	<u>119,430</u>	<u>(9,428)</u>	<u>217,701</u>
Total revenues	<u>3,674,858</u>	<u>3,783,862</u>	<u>109,004</u>	<u>3,772,812</u>

TOWN OF HIGHLANDS, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011		Variance Over/Under	2010
	Budget	Actual		Actual
<b>Expenditures:</b>				
<b>General Government:</b>				
<b>Governing Body:</b>				
Salaries and employee benefits	616,800	640,707	-	586,672
Capital outlay	71,785	83,504	-	40,654
Operating expenses	432,200	456,068	-	448,461
Total governing body	1,120,785	1,180,279	(59,494)	1,075,787
<b>Planning and Zoning Department:</b>				
Salaries and employee benefits	196,900	207,085	-	189,205
Operating expenses	39,900	28,780	-	22,201
Total planning and zoning	236,800	235,865	935	211,406
Total general government	1,357,585	1,416,144	(58,559)	1,287,193
<b>Public Safety:</b>				
<b>Police:</b>				
Salaries and employee benefits	775,155	751,859	-	771,919
Capital outlay	35,000	32,120	-	260,208
Operating expenses	157,689	197,064	-	164,388
Total police	967,844	981,043	(13,199)	1,196,515
Total public safety	967,844	981,043	(13,199)	1,196,515
<b>Transportation:</b>				
<b>Streets and Highways:</b>				
Salaries and employee benefits	332,000	333,716	-	308,272
Capital outlay	748,000	770,177	-	52,800
Operating expenses	460,900	439,295	-	510,585
Total transportation	1,540,900	1,543,188	(2,288)	871,657
Total expenditures	3,866,329	3,940,375	(74,046)	3,355,365
Revenues over (under) expenditures	(191,471)	(156,513)	34,958	417,447

TOWN OF HIGHLANDS, NORTH CAROLINA

GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Other Financing Sources (Uses):</b>				
Transfer to Water and Sewer Capital Project Fund	(73,733)	(55,070)	(18,663)	-
Transfer to Capital Project Fund	(53,100)	(53,100)	-	(826,532)
Transfer to Sanitation Fund	(36,853)	(29,953)	6,900	-
Transfer to Fire Department Special Revenue Fund	-	-	-	(175,728)
Transfer to Recreation Special Revenue Fund	(185,400)	(115,000)	70,400	(279,038)
Sale of capital assets	-	8,224	8,224	12,717
Transfer from Electric Fund	388,785	276,451	(112,334)	-
Contingency	(68,228)	-	68,228	-
Appropriated fund balance	220,000	-	(220,000)	-
Total other financing sources (uses)	<u>191,471</u>	<u>31,552</u>	<u>(159,919)</u>	<u>(1,268,581)</u>
Net change in fund balance	<u>\$ -</u>	<u>(124,961)</u>	<u>\$ (124,961)</u>	<u>(851,134)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>2,064,990</u>		<u>2,916,124</u>
End of year - June 30		<u>\$ 1,940,029</u>		<u>\$ 2,064,990</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2011

	<b>Special Revenue Fund</b>
	<b>Fire Department Fund</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 203,012
Accounts receivable, net	<u>654</u>
Total assets	<u>\$ 203,666</u>
<b>Liabilities and Fund Balances:</b>	
<b>Liabilities:</b>	
Accounts payable	<u>\$ 3,107</u>
Total liabilities	<u>3,107</u>
<b>Fund Balances:</b>	
Restricted for:	
Stabilization by State statute	654
Assigned for fire protection	<u>199,905</u>
Total fund balances	<u>200,559</u>
Total liabilities and fund balances	<u>\$ 203,666</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Special Revenue Fund</b>
	<b>Fire Department Fund</b>
<b>Revenues:</b>	
Restricted intergovernmental	\$ 375,466
Investment earnings	2,709
Contributions	15,763
Miscellaneous	18,489
Total revenues	<u>412,427</u>
<b>Expenditures:</b>	
Public safety	278,657
Debt service	101,943
Total expenditures	<u>380,600</u>
Revenues over (under) expenditures	<u>31,827</u>
Net change in fund balances	31,827
<b>Fund Balances:</b>	
Beginning of year - July 1	<u>168,732</u>
End of year - June 30	<u>\$ 200,559</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

**MAJOR SPECIAL REVENUE FUND - RECREATION FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Recreation department fees	\$ 39,000	\$ 51,783	\$ 12,783	\$ 61,152
Macon County Recreation	500,000	495,000	(5,000)	503,148
Miscellaneous revenue	2,000	2,975	975	3,598
ABC contribution	-	-	-	4,810
Restricted Intergovernmental	-	37,495	37,495	-
Investment earnings	1,000	3	(997)	1,433
Total revenues	<u>542,000</u>	<u>587,256</u>	<u>45,256</u>	<u>574,141</u>
<b>Expenditures:</b>				
Culture and recreation:				
Salaries and benefits	394,900	393,387	1,513	386,767
Operating expenditures	265,906	261,551	4,355	280,570
Capital outlay	16,594	16,594	-	108,973
Greenway Project	50,000	49,823	177	72,741
Total culture and recreation	<u>727,400</u>	<u>721,355</u>	<u>6,045</u>	<u>849,051</u>
Total expenditures	<u>727,400</u>	<u>721,355</u>	<u>6,045</u>	<u>849,051</u>
Revenues over (under) expenditures	<u>(185,400)</u>	<u>(134,099)</u>	<u>51,301</u>	<u>(274,910)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	<u>185,400</u>	<u>115,000</u>	<u>(70,400)</u>	<u>279,038</u>
Total other financing sources (uses)	<u>185,400</u>	<u>115,000</u>	<u>(70,400)</u>	<u>279,038</u>
Net change in fund balance	<u>\$ -</u>	<u>(19,099)</u>	<u>\$ (19,099)</u>	<u>4,128</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>4,128</u>		<u>-</u>
End of year - June 30		<u>\$ (14,971)</u>		<u>\$ 4,128</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

**MAJOR CAPITAL PROJECTS FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Project Authorization</u>	<u>Actual</u>		
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>
<b>Revenues:</b>				
Investment earnings	\$ -	\$ -	\$ 307	\$ 307
Miscellaneous	-	-	9,325	9,325
Total revenues	-	-	9,632	9,632
<b>Expenditures:</b>				
Police Department renovations	681,921	30,784	438,301	469,085
Total expenditures	681,921	30,784	438,301	469,085
Revenues over (under) expenditures	(681,921)	(30,784)	(428,669)	(459,453)
<b>Other Financing Sources (Uses):</b>				
Transfers in	71,100	30,784	53,100	83,884
Long-term debt issued	610,821	-	610,821	610,821
Total other financing sources (uses)	681,921	30,784	663,921	694,705
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	235,252	\$ 235,252
<b>Fund Balance:</b>				
Beginning of year - July 1			-	
End of year - June 30			\$ 235,252	

## TOWN OF HIGHLANDS, NORTH CAROLINA

## FIRE DEPARTMENT FUND

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

## IN FUND BALANCE - BUDGET AND ACTUAL

## FOR THE YEAR ENDED JUNE 30, 2011

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Macon County Fire District	\$ 335,800	\$ 353,225	\$ 17,425	\$ 348,707
Jackson County Fire District	20,000	22,241	2,241	22,256
Miscellaneous revenue	1,683	18,489	16,806	3,773
Charitable contributions	-	15,763	15,763	15,077
Investment earnings	-	2,709	2,709	2,977
Total revenues	<u>357,483</u>	<u>412,427</u>	<u>54,944</u>	<u>392,790</u>
<b>Expenditures:</b>				
Public Safety:				
Salaries and benefits	147,800	148,948	(1,148)	121,624
Operating expenditures	207,683	106,425	101,258	106,175
Capital outlay	<u>35,000</u>	<u>23,284</u>	<u>11,716</u>	<u>70,044</u>
Total public safety	<u>390,483</u>	<u>278,657</u>	<u>111,826</u>	<u>297,843</u>
<b>Debt Service:</b>				
Principal	102,000	96,637	5,363	93,728
Interest	-	5,306	(5,306)	8,215
Total debt service	<u>102,000</u>	<u>101,943</u>	<u>57</u>	<u>101,943</u>
Total expenditures	<u>492,483</u>	<u>380,600</u>	<u>111,883</u>	<u>399,786</u>
Revenues over (under) expenditures	<u>(135,000)</u>	<u>31,827</u>	<u>166,827</u>	<u>(6,996)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	-	-	-	175,728
Appropriated fund balance	<u>135,000</u>	-	<u>(135,000)</u>	-
Total other financing sources (uses)	<u>135,000</u>	-	<u>(135,000)</u>	<u>175,728</u>
Net change in fund balance	<u>\$ -</u>	<u>31,827</u>	<u>\$ 31,827</u>	<u>168,732</u>
<b>Fund Balance:</b>				
Beginning of year, July 1		<u>168,732</u>		-
End of year, June 30		<u>\$ 200,559</u>		<u>\$ 168,732</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

**ELECTRIC FUND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**BUDGET AND ACTUAL (NON-GAAP)**  
**FOR THE YEAR ENDED JUNE 30, 2011**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>		<u>2010</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 3,610,000	\$ 3,534,961	\$ (75,039)	\$ 3,427,784
Other operating revenues	258,076	282,024	23,948	144,466
Total operating revenues	<u>3,868,076</u>	<u>3,816,985</u>	<u>(51,091)</u>	<u>3,572,250</u>
Non-operating revenues:				
Investment earnings	25,000	6,151	(18,849)	27,332
Total revenues	<u>3,893,076</u>	<u>3,823,136</u>	<u>(69,940)</u>	<u>3,599,582</u>
<b>Expenditures:</b>				
Current:				
Purchased power	2,000,000	2,314,831	(314,831)	1,906,645
Operating	1,078,900	1,077,812	1,088	965,284
Capital outlay	223,960	215,815	8,145	61,395
Total expenditures	<u>3,302,860</u>	<u>3,608,458</u>	<u>(305,598)</u>	<u>2,933,324</u>
Revenues over (under) expenditures	<u>590,216</u>	<u>214,678</u>	<u>(375,538)</u>	<u>666,258</u>
<b>Other Financing Sources (Uses):</b>				
Appropriated fund balance	133,960	-	(133,960)	-
Contingency	(145,391)	-	145,391	-
Transfer to General Fund	(336,785)	(276,451)	60,334	-
Transfer to Sanitation Fund	-	-	-	(111,320)
Transfer from (to) Water and Sewer Fund	(242,000)	(90,534)	151,466	(295,918)
Transfer from (to) Water and Sewer Capital Projects Fund	-	-	-	(1,000,000)
Total other financing sources (uses)	<u>(590,216)</u>	<u>(366,985)</u>	<u>223,231</u>	<u>(1,407,238)</u>
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ (152,307)</u>	<u>\$ (152,307)</u>	<u>\$ (740,980)</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>				
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)		\$ (152,307)		\$ (740,980)
Change in OPEB liability		(6,030)		(5,574)
Change in accrued vacation		(3,260)		(5,484)
Capital outlay capitalized		216,579		61,395
Depreciation		<u>(124,148)</u>		<u>(116,638)</u>
Change in net assets - GAAP basis		<u>\$ (69,166)</u>		<u>\$ (807,281)</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	<u>2011</u>			<u>2010</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 1,639,000	\$ 1,832,383	\$ 193,383	\$ 1,542,954
Other operating revenues	57,827	55,744	(2,083)	16,093
Total operating revenues	<u>1,696,827</u>	<u>1,888,127</u>	<u>191,300</u>	<u>1,559,047</u>
Non-operating revenues:				
Investment earnings	4,500	366	(4,134)	381
Total non-operating revenues	<u>4,500</u>	<u>366</u>	<u>(4,134)</u>	<u>381</u>
Total revenues	<u>1,701,327</u>	<u>1,888,493</u>	<u>187,166</u>	<u>1,559,428</u>
<b>Expenditures:</b>				
Current:				
Water purchases and operations	666,600	746,195	(79,595)	807,721
Sewer treatment and operations	359,100	400,006	(40,906)	320,824
Water Treatment Plant purchases and operations	713,700	688,780	24,920	564,706
Capital outlay	207,645	168,118	39,527	64,379
Total expenditures	<u>1,947,045</u>	<u>2,003,099</u>	<u>(56,054)</u>	<u>1,757,630</u>
Revenues over (under) expenditures	<u>(245,718)</u>	<u>(114,606)</u>	<u>131,112</u>	<u>(198,202)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from Electric Fund	242,000	90,534	(151,466)	295,918
Transfers to capital projects fund-intrafund	(165,334)	(95,581)	69,753	(206,642)
Contingency	(96,282)	-	96,282	-
Appropriated fund balance	265,334	-	(265,334)	-
Total other financing sources (uses)	<u>245,718</u>	<u>(5,047)</u>	<u>(250,765)</u>	<u>89,276</u>
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ (119,653)</u>	<u>\$ (119,653)</u>	<u>\$ (108,926)</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2011  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010**

	2011		2010
	Budget	Actual	Actual
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ (119,653)	\$ (108,926)
Change in accrued vacation		2,060	(550)
Change in OPEB liability		(6,908)	(6,837)
Capital outlay capitalized		163,972	63,240
Depreciation		(526,697)	(470,202)
<b>Enterprise Fund Capital Projects:</b>			
Capital contributions - grants		778,969	1,100,682
Other revenues		27,346	
Transfers to capital projects		55,070	1,000,000
Intrafund transfers to (from) Capital Projects Fund		95,581	206,642
Change in net assets - GAAP basis		\$ 469,740	\$ 1,784,049

## TOWN OF HIGHLANDS, NORTH CAROLINA

CONSOLIDATED WATER AND SEWER CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2011

	Project Authorization	Actual		Total
		Prior Years	Current Year	
<b>Revenues:</b>				
Federal and State grants	\$ 4,346,700	\$ 1,320,806	\$ 778,969	\$ 2,099,775
Other revenues	27,347	-	27,346	27,346
Total revenues	4,374,047	1,320,806	806,315	2,127,121
<b>Expenditures:</b>				
Harris Lake Sewer Project	1,112,883	940,601	-	940,601
Sewer Master Plan	66,610	-	16,653	16,653
Pine Street Sewer Project	160,196	-	142,196	142,196
Lake Sequoyah Sewer Project	108,320	86,030	7,091	93,121
Lake Sequoyah Intake Project	32,500	-	22,159	22,159
Mirror Lake Sewer Project	3,000,000	1,176,506	993,554	2,170,060
Radio Read Meters Project	-	4,705	-	4,705
Chesnut Street	70,000	56,775	8,873	65,648
Kelsey-Hutchinson Park Stormwater-Pine Street	746,517	517,749	228,084	745,833
Total project expenditures	5,297,026	2,782,366	1,418,610	4,200,976
<b>Debt Service:</b>				
Principal	88,416	-	69,754	69,754
Total debt service	88,416	-	69,754	69,754
Total expenditures	5,385,442	2,782,366	1,488,364	4,270,730
Revenues over (under) expenditures	(1,011,395)	(1,461,560)	(682,049)	(2,143,609)
<b>Other Financing Sources (Uses):</b>				
Transfers (to) from other funds:				
Water and Sewer Fund	453,890	172,685	95,581	268,266
Electric Fund	137,500	1,000,000	-	1,000,000
General Fund	73,733	-	55,070	55,070
Long-term debt - ARRA	-	720,624	778,970	1,499,594
Appropriated fund balance	346,272	-	-	-
Total other financing sources (uses)	1,011,395	1,893,309	929,621	2,822,930
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)	\$ -	\$ 431,749	\$ 247,572	\$ 679,321

## TOWN OF HIGHLANDS, NORTH CAROLINA

## SANITATION FUND

## SCHEDULE OF REVENUES AND EXPENDITURES

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2011

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2010

	2011			2010
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 534,000	\$ 497,282	\$ (36,718)	\$ 474,803
Other operating revenues	153	153	-	-
Total operating revenues	<u>534,153</u>	<u>497,435</u>	<u>(36,718)</u>	<u>474,803</u>
<b>Expenditures:</b>				
Current:				
Sanitation purchases and operations	537,953	563,353	(25,400)	529,664
Capital outlay	-	-	-	111,320
Total expenditures	<u>537,953</u>	<u>563,353</u>	<u>(25,400)</u>	<u>640,984</u>
Revenues over (under) expenditures	<u>(3,800)</u>	<u>(65,918)</u>	<u>(62,118)</u>	<u>(166,181)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from General Fund	36,853	29,953	(6,900)	-
Transfers from Electric Fund	-	-	-	111,320
Contingency	<u>(33,053)</u>	<u>-</u>	<u>33,053</u>	<u>-</u>
Total other financing sources (uses)	<u>3,800</u>	<u>29,953</u>	<u>26,153</u>	<u>111,320</u>
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)	<u>\$ -</u>	<u>\$ (35,965)</u>	<u>\$ (35,965)</u>	<u>\$ (54,861)</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>				
Revenues and other financing sources (uses) over (under) expenditures and other financing sources (uses)		\$ (35,965)		\$ (54,861)
Change in accrued vacation		534		(16,027)
Change in OPEB liability		(2,489)		(2,391)
Capital outlay capitalized		-		111,320
Depreciation		<u>(11,852)</u>		<u>(3,711)</u>
Change in net assets - GAAP basis		<u>\$ (49,772)</u>		<u>\$ 34,330</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<u>Scholarship Fund</u>	<u>Cemetery Fund</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 823,329	\$ 199,378	\$ 1,022,707
Accounts receivable	222	\$ -	222
Due from component unit	<u>2,832</u>	<u>-</u>	<u>2,832</u>
Total assets	<u>\$ 826,383</u>	<u>\$ 199,378</u>	<u>\$ 1,025,761</u>
<b>Net Assets:</b>			
Held in trust for other purposes	<u>\$ 826,383</u>	<u>\$ 199,378</u>	<u>\$ 1,025,761</u>
Total equity	<u>\$ 826,383</u>	<u>\$ 199,378</u>	<u>\$ 1,025,761</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

**SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Scholarship Fund</u>	<u>Cemetery Fund</u>	<u>Total</u>
<b>Revenues:</b>			
Investment earnings	\$ 937	\$ 677	\$ 1,614
Contributions	29,820	38,800	68,620
ABC profit distributions	4,341	-	4,341
Miscellaneous	-	2,720	2,720
Total revenues	<u>35,098</u>	<u>42,197</u>	<u>77,295</u>
<b>Expenditures:</b>			
Current:			
Cemetery Fund	-	36,931	36,931
Scholarship Fund	<u>37,873</u>	<u>-</u>	<u>37,873</u>
Total expenditures	<u>37,873</u>	<u>36,931</u>	<u>74,804</u>
Revenues over (under) expenditures	<u>(2,775)</u>	<u>5,266</u>	<u>2,491</u>
<b>Net Assets:</b>			
Beginning of year - July 1	<u>829,158</u>	<u>194,112</u>	<u>1,023,270</u>
End of year - June 30	<u>\$ 826,383</u>	<u>\$ 199,378</u>	<u>\$ 1,025,761</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2011

<u>Year Ended June 30</u>	<u>Uncollected Balance July 1, 2010</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010	\$ -	\$ 2,559,933	\$ 2,520,524	\$ 39,409
2009	43,256	-	26,828	16,428
2008	28,735	-	14,254	14,481
2007	5,860	-	1,495	4,365
2006	2,298	-	336	1,962
2005	707	-	41	666
2004	658	-	48	610
2003	598	-	40	558
2002	497	-	356	141
2001	762	-	597	165
2000	472	-	472	-
Total	<u>\$ 83,843</u>	<u>\$ 2,559,933</u>	<u>\$ 2,564,991</u>	78,785

Less: Allowance for uncollectible ad valorem taxes receivable: (30,000)

Ad valorem taxes receivable, net \$ 48,785

**Reconciliation of Collections and Credits with Revenues:****Ad Valorem Taxes:**

Ad valorem taxes - General Fund \$ 2,580,690

**Reconciling Items:**

Penalties and interest collected (13,767)  
Miscellaneous adjustments (2,404)  
Taxes written off 472

Total collections and credits \$ 2,564,991

## TOWN OF HIGHLANDS, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY  
FOR THE YEAR ENDED JUNE 30, 2011

	Property Valuation	Rate	Total Levy	Total Levy	
				Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 1,890,933,333	\$ 0.135	\$ 2,552,760	\$ 2,532,019	\$ 20,741
Penalties	88,889		120	120	-
Total	<u>1,891,022,222</u>		<u>2,552,880</u>	<u>2,532,139</u>	<u>20,741</u>
<b>Discoveries:</b>					
Current year taxes	180,000	0.135	243	243	-
Utilities	5,082,963	0.135	6,862	<u>6,862</u>	-
<b>Abatements</b>	<u>(38,519)</u>	0.135	<u>(52)</u>	<u>(52)</u>	-
Total property valuation	<u>\$ 1,896,246,667</u>				
<b>Net Levy</b>			2,559,933	2,539,192	20,741
Uncollected taxes at June 30, 2011			<u>(39,409)</u>	<u>(37,179)</u>	<u>(2,230)</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 2,520,524</u>	<u>\$ 2,502,013</u>	<u>\$ 18,511</u>
<b>Current Levy Collection Percentage</b>			<u>98.46%</u>	<u>98.54%</u>	<u>89.25%</u>