

Town of Broadway, North Carolina

Financial Statements

For the Fiscal Year Ended June 30, 2012

Town Board Members

Donald F. Andrews, Mayor

Thomas H. Beal, Mayor Pro Tem

Garland W. Beale

James F. Davis

Lynne West Green

Clemellyn H. Welch

Administrative and Financial Staff

Bob Stevens, Town Manager

Barbara Cox, Finance Officer

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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 Alderpersons
Broadway, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Broadway, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Broadway's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Broadway, North Carolina, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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. Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Broadway, North Carolina's financial statements 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 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 additional 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 financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
October 4, 2012

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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

Financial Highlights

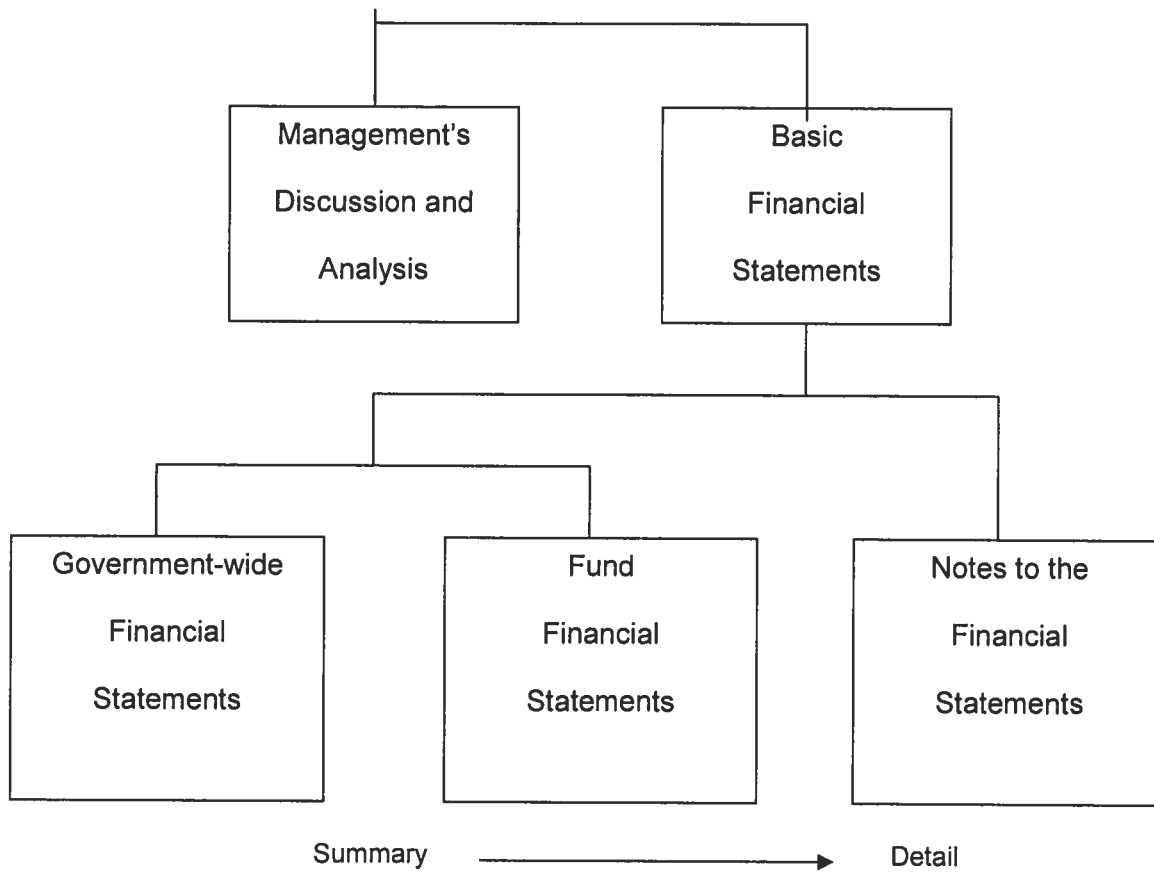
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$2,963,038. The assets of the governmental activities exceeded liabilities by \$1,434,677 and the assets of the business-type activities exceeded liabilities by \$1,528,361.
- The government's total net assets increased by \$67,030, primarily due to increases in the business-type activities net assets
- As of the close of the current fiscal year, the Town's governmental funds reported ending fund balance of \$785,277, an increase of \$19,883 in comparison with the prior year. Approximately 32 percent of this total amount, or \$254,351, is non spendable or restricted.
- At the end of the current fiscal year unassigned fund balance for the general fund was \$513,960, or 61.12 percent of total general fund expenditures for the fiscal year.
- As of the close of the current fiscal year, the Town's business-type funds reported combined ending net assets of \$1,528,361, an increase of \$35,223.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's 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 Broadway.

Figure 1:

Required Components of Annual Financial Report



Basic Financial Statements

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

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

Government-wide Financial Statements

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

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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. Over time, increases or decreases in net assets help determine whether the Town's financial position is improving or deteriorating. The statement of activities presents information which show how the Town's net assets changed during the most recent fiscal year.

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, environmental protection, cultural and recreational, and general administration. Property taxes and intergovernmental revenues finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town.

The government-wide financial statements are on pages 11 and 12 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, 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 can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. 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 which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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 begin on page 21 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to State laws and State appropriations.

Net Assets

The following reflects condensed information on the Town's net assets.

**Town of Broadway
Statement of Net Assets**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|----------------------------|---------------------|-----------------------------|---------------------|---------------------|---------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Current and other assets | \$ 833,326 | \$ 809,655 | \$ 422,256 | \$ 364,242 | \$ 1,255,582 | \$ 1,173,897 |
| Capital assets | 730,949 | 689,950 | 1,700,438 | 1,779,616 | 2,431,387 | 2,469,566 |
| Total assets | <u>1,564,275</u> | <u>1,499,605</u> | <u>2,122,694</u> | <u>2,143,858</u> | <u>3,686,969</u> | <u>3,643,463</u> |
| Long-term liabilities | 74,897 | 49,721 | 555,000 | 610,000 | 629,897 | 659,721 |
| Other liabilities | 54,701 | 47,014 | 39,333 | 40,720 | 94,034 | 87,734 |
| Total liabilities | <u>129,598</u> | <u>96,735</u> | <u>594,333</u> | <u>650,720</u> | <u>723,931</u> | <u>747,455</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 716,184 | 682,371 | 1,145,438 | 1,169,616 | 1,861,622 | 1,851,987 |
| Restricted | 251,601 | 268,172 | - | - | 251,601 | 268,172 |
| Unrestricted | <u>466,892</u> | <u>452,327</u> | <u>382,923</u> | <u>323,522</u> | <u>849,815</u> | <u>775,849</u> |
| Total net assets | <u>\$ 1,434,677</u> | <u>\$ 1,402,870</u> | <u>\$ 1,528,361</u> | <u>\$ 1,493,138</u> | <u>\$ 2,963,038</u> | <u>\$ 2,896,008</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 exceeded liabilities by \$2,963,038 as of June 30, 2012. The Town's net assets increased by \$67,030 for the fiscal year ended June 30, 2012. However, the largest portion of net assets (62.8%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net assets, \$251,601 (8.5%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$849,815 (28.7%) is unrestricted.

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Changes in Net Assets

The Town's total revenues and expenses for governmental and business-type activities are reflected below:

| | Governmental | | Business-Type | | Total | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Activities | | Activities | | | |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 84,735 | \$ 77,938 | \$ 371,627 | \$ 361,415 | \$ 456,362 | \$ 439,353 |
| Operating grants and contributions | 63,061 | 56,696 | - | 3,758 | 63,061 | 60,454 |
| Capital grants and contributions | 16,070 | - | - | - | 16,070 | - |
| General revenues: | | | | | | |
| Property taxes | 361,341 | 356,748 | - | - | 361,341 | 356,748 |
| Other taxes | 277,422 | 265,634 | - | - | 277,422 | 265,634 |
| Other | 32,808 | 32,078 | 263 | 677 | 33,071 | 32,755 |
| Total revenues | <u>835,437</u> | <u>789,094</u> | <u>371,890</u> | <u>365,850</u> | <u>1,207,327</u> | <u>1,154,944</u> |
| Expenses: | | | | | | |
| General government | 355,438 | 235,782 | - | - | 355,438 | 235,782 |
| Public safety | 270,238 | 202,761 | - | - | 270,238 | 202,761 |
| Transportation | 70,208 | 201,089 | - | - | 70,208 | 201,089 |
| Environmental protection | 81,367 | 77,246 | - | - | 81,367 | 77,246 |
| Cultural and recreational | 25,467 | 22,560 | - | - | 25,467 | 22,560 |
| Interest on long-term debt | 912 | - | - | - | 912 | - |
| Water and sewer | - | - | 336,667 | 341,778 | 336,667 | 341,778 |
| Total expenses | <u>803,630</u> | <u>739,438</u> | <u>336,667</u> | <u>341,778</u> | <u>1,140,297</u> | <u>1,081,216</u> |
| Increase in net assets | 31,807 | 49,656 | 35,223 | 24,072 | 67,030 | 73,728 |
| Net assets, July 1 | <u>1,402,870</u> | <u>1,353,214</u> | <u>1,493,138</u> | <u>1,469,066</u> | <u>2,896,008</u> | <u>2,822,280</u> |
| Net assets, June 30 | <u>\$ 1,434,677</u> | <u>\$ 1,402,870</u> | <u>\$ 1,528,361</u> | <u>\$ 1,493,138</u> | <u>\$ 2,963,038</u> | <u>\$ 2,896,008</u> |

Governmental activities – Governmental activities increased the Town's net assets by \$31,807.

- Increase of 4% in general revenues of other taxes and intergovernmental revenues.
- Net increase in capital outlay attributable to public building improvements funded by contribution from other local government grant proceeds of \$16,070.

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Business-type activities: Business-type activities increased the Town's net assets by \$35,223. Key factors to this change in net assets are as follows:

- Decrease in meter expenses and pump supplies and an increase in water purchased.
- The Town refunding of the sanitary sewer bond debt resulted in a decrease of \$14,658 in interest costs and debt issuance costs of \$9,762 in the current year.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, fund balance available in the General Fund was \$669,587, while total fund balance reached \$785,277. As a measure of General Fund liquidity, it may be useful to compare both available fund balance and total fund balance to total fund expenditures. Available fund balance represents 80 percent of total General Fund expenditures, while total fund balance represents 93 percent of the same amount.

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

Expenditures were less than budgeted amounts primarily due to less operating expenditures in the General Government, Transportation and Cultural and Recreational departments. Expenditures were more than budgeted in the Public Safety department due to capital outlay financed by a capital lease.

Proprietary Funds. The Town's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$382,923. The total increase in net assets was \$35,223. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Assets and Debt Administration

Capital assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$2,431,387 (net of accumulated depreciation). These assets include buildings, streets, storm drainage, sidewalks, land, machinery and equipment, and vehicles.

- Major capital asset purchases in the governmental fund included street resurfacing, sidewalk improvements, public building improvements and public safety vehicle.
- Major capital purchases in the proprietary fund included sewer pumps.

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Town of Broadway
Capital Assets**

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------|----------------------------|------------|-----------------------------|--------------|--------------|--------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Land | \$ 256,754 | \$ 256,754 | \$ 60,934 | \$ 60,934 | \$ 317,688 | \$ 317,688 |
| Construction in progress | - | - | - | - | - | - |
| Total non-depreciable assets | 256,754 | 256,754 | 60,934 | 60,934 | 317,688 | 317,688 |
| Buildings and improvements | 635,401 | 569,761 | 3,841,414 | 3,860,899 | 4,476,815 | 4,430,660 |
| Furniture and equipment | 31,466 | 39,086 | - | - | 31,466 | 39,086 |
| Vehicles | 162,726 | 160,297 | 16,710 | 16,710 | 179,436 | 177,007 |
| Total depreciable assets | 829,593 | 769,144 | 3,858,124 | 3,877,609 | 4,687,717 | 4,646,753 |
| Accumulated depreciation | 355,398 | 335,948 | 2,218,620 | 2,158,927 | 2,574,018 | 2,494,875 |
| Depreciable assets, net | 474,195 | 433,196 | 1,639,504 | 1,718,682 | 2,113,699 | 2,151,878 |
| Total | \$ 730,949 | \$ 689,950 | \$ 1,700,438 | \$ 1,779,616 | \$ 2,431,387 | \$ 2,469,566 |

Additional information on the Town's capital assets can be found in Note II of the basic financial statements beginning on page 29 of this report.

Long-term Debt. As of June 30, 2012, the Town had total bonded debt outstanding of \$555,000. This debt is backed by the full faith and credit of the Town. The remainder of the Town's debt represents capital lease purchase agreement.

**Town of Broadway
Outstanding Debt
General Obligation Bonds, Capital Leases**

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|----------------------------|----------|-----------------------------|------------|------------|------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| General obligation bonds | \$ - | \$ - | \$ 555,000 | \$ 610,000 | \$ 555,000 | \$ 610,000 |
| Capital leases | 14,765 | 7,579 | - | - | 14,765 | 7,579 |
| Total | \$ 14,765 | \$ 7,579 | \$ 555,000 | \$ 610,000 | \$ 569,765 | \$ 617,579 |

The Town's total debt was decreased by \$47,814 during the past fiscal year. This represents a decrease in bonded debt due to refunding of \$55,000, and a net increase in capital leases due to principal payment of \$7,186.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to eight percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town is approximately \$6.5 million.

Additional information regarding the Town's long-term debt can be found in Note II beginning on page 33 of this report.

**TOWN OF BROADWAY, NORTH CAROLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Economic Factors

The following is the key economic indicator for the Town.

- The county unemployment rate decreased 0.7% from prior year to 12.20%.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: The governmental fund's primary revenue resources are property taxes and intergovernmental revenues. The Town will not increase taxes in the 2012-2013 fiscal year. The Town will, however, increase waste management fees by 1.0%. Further, the Town will continue its high level of service to its citizens and will not reduce services in the upcoming year. Expenditures for these services will be reduced by 8.7% from the prior year.

Business-type Activities: The business-type funds budgeted revenue increased 0.5% for the fiscal year ending June 30, 2013.

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:

Town Manager
Town of Broadway
P. O. Box 130
Broadway, North Carolina 27505

TOWN OF BROADWAY, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2012

| | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 550,350 | \$ 425,404 | \$ 975,754 |
| Tax receivable, net | 15,851 | - | 15,851 |
| Accounts receivable, net | 8,193 | 43,521 | 51,714 |
| Other receivables | - | 15 | 15 |
| Due from other governmental agencies | 62,074 | - | 62,074 |
| Internal balances | 55,447 | (55,447) | - |
| Prepaid items | 2,750 | 87 | 2,837 |
| Restricted cash | 138,661 | - | 138,661 |
| Total current assets | <u>833,326</u> | <u>413,580</u> | <u>1,246,906</u> |
| Non-current assets: | | | |
| Deferred bond issuance costs | - | 8,676 | 8,676 |
| Capital assets: | | | |
| Land | 256,754 | 60,934 | 317,688 |
| Other capital assets, net of accumulated depreciation | 474,195 | 1,639,504 | 2,113,699 |
| Total capital assets - net | <u>730,949</u> | <u>1,700,438</u> | <u>2,431,387</u> |
| Total non-current assets | <u>730,949</u> | <u>1,709,114</u> | <u>2,440,063</u> |
| Total assets | <u>\$ 1,564,275</u> | <u>\$ 2,122,694</u> | <u>\$ 3,686,969</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 18,952 | \$ 11,279 | \$ 30,231 |
| Compensated absences | 34,365 | 5,995 | 40,360 |
| Customer deposits | - | 22,059 | 22,059 |
| Unearned revenues | 1,384 | - | 1,384 |
| Current portion of long-term debt | 7,150 | 57,000 | 64,150 |
| Total current liabilities | <u>61,851</u> | <u>96,333</u> | <u>158,184</u> |
| Non-current liabilities: | | | |
| Long-term debt | 7,615 | 498,000 | 505,615 |
| Net pension obligation | 60,132 | - | 60,132 |
| Total non-current liabilities | <u>67,747</u> | <u>498,000</u> | <u>565,747</u> |
| Total liabilities | <u>129,598</u> | <u>594,333</u> | <u>723,931</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 716,184 | 1,145,438 | 1,861,622 |
| Restricted for: | | | |
| Stabilization by State Statute | 112,940 | - | 112,940 |
| Streets | 131,229 | - | 131,229 |
| Cultural and Recreational | 2,502 | - | 2,502 |
| Public safety | 4,930 | - | 4,930 |
| Unrestricted | 466,892 | 382,923 | 849,815 |
| Total net assets | <u>\$ 1,434,677</u> | <u>\$ 1,528,361</u> | <u>\$ 2,963,038</u> |

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

TOWN OF BROADWAY, NORTH CAROLINA
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2012

| Function/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|------------------|----------------------|------------------------------------|---|--------------------------|--------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Primary Government | | |
| | | | | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | |
| Governmental activities: | | | | | | |
| General government | \$ 355,438 | \$ 14,390 | \$ 22,321 | \$ (302,657) | \$ - | \$ (302,657) |
| Public safety | 270,238 | 240 | 538 | (269,460) | - | (269,460) |
| Transportation | 70,208 | - | 39,265 | (30,943) | - | (30,943) |
| Environmental protection | 81,367 | 70,105 | 937 | (10,325) | - | (10,325) |
| Cultural and recreational | 25,467 | - | - | (25,467) | - | (25,467) |
| Interest on long-term debt | 912 | - | - | (912) | - | (912) |
| Total governmental activities | 803,630 | 84,735 | 63,061 | (639,764) | - | (639,764) |
| Business-type activities: | | | | | | |
| Water and sewer | 336,667 | 371,627 | - | - | 34,960 | 34,960 |
| Total primary government | \$ 1,140,297 | \$ 456,362 | \$ 63,061 | (639,764) | 34,960 | (604,804) |
| General revenues: | | | | | | |
| Ad valorem taxes | | | | 361,341 | - | 361,341 |
| Other taxes and licenses | | | | 218,786 | - | 218,786 |
| Unrestricted intergovernmental revenues | | | | 58,636 | - | 58,636 |
| Unrestricted investment earnings | | | | 2,904 | 263 | 3,167 |
| Miscellaneous | | | | 18,766 | - | 18,766 |
| Total general revenues | | | | 660,433 | 263 | 660,696 |
| Extraordinary item: Gain on insurance recovery | | | | 11,138 | - | 11,138 |
| Total general revenues and extraordinary item | | | | 671,571 | 263 | 671,834 |
| Change in net assets | | | | 31,807 | 35,223 | 67,030 |
| Net assets, beginning of year | | | | 1,402,870 | 1,493,138 | 2,896,008 |
| Net assets, end of year | | | | \$ 1,434,677 | \$ 1,528,361 | \$ 2,963,038 |

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

TOWN OF BROADWAY, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

| ASSETS | Major Fund General |
|---|--------------------------|
| Cash and cash equivalents | \$ 550,350 |
| Restricted cash | 138,661 |
| Taxes receivable, net of allowance of \$5,829 | 15,851 |
| Accounts receivable, net | 8,193 |
| Due from other governmental agencies | 62,074 |
| Due from water and sewer fund | 55,447 |
| Prepaid items | 2,750 |
| Total assets | \$ 833,326 |
| LIABILITIES AND FUND BALANCE | |
| Liabilities: | |
| Accounts payable and accrued liabilities | \$ 18,040 |
| Deferred revenues | 28,625 |
| Unearned revenues | 1,384 |
| Total liabilities | 48,049 |
| Fund balances: | |
| Non-spendable | |
| Prepaid items | 2,750 |
| Restricted | |
| Stabilization by State Statute | 112,940 |
| Streets | 131,229 |
| Cultural and Recreational | 2,502 |
| Public safety | 4,930 |
| Assigned | |
| Cultural and Recreational | 16,576 |
| Subsequent year's expenditures | 390 |
| Unassigned | 513,960 |
| Total fund balances | 785,277 |
| Total liabilities and fund balances | \$ 833,326 |

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

TOWN OF BROADWAY, NORTH CAROLINA
RECONCILIATION of the BALANCE SHEET - GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
June 30, 2012

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

| | |
|---|---------------------|
| Total Fund Balance, Governmental Funds | \$ 785,277 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds | 730,949 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds | 28,625 |
| Some liabilities, including capital lease purchase, accrued interest, pension and compensated absences, are not due and payable in current period and therefore are not reported in the funds | <u>(110,174)</u> |
| Net assets of governmental activities | <u>\$ 1,434,677</u> |

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

TOWN OF BROADWAY, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

| | <u>Major Fund - General</u> |
|---|---------------------------------|
| REVENUES | |
| Ad valorem taxes | \$ 362,866 |
| Other taxes and licenses | 218,786 |
| Unrestricted intergovernmental revenues | 58,636 |
| Restricted intergovernmental revenues | 54,731 |
| Contributions & donations | 22,321 |
| Sales and services | 84,391 |
| Investment earnings | 4,445 |
| Miscellaneous | <u>31,787</u> |
| Total revenues | <u>837,963</u> |
| EXPENDITURES | |
| Current operating | |
| General government | 383,170 |
| Public safety | 264,516 |
| Transportation | 70,208 |
| Environmental protection | 81,367 |
| Cultural and recreational | 25,467 |
| Debt service | |
| Principal | 15,689 |
| Interest | <u>538</u> |
| Total expenditures | <u>840,955</u> |
| Excess (deficiency) of revenues over expenditures | <u>(2,992)</u> |
| OTHER FINANCING SOURCES | |
| Capital lease obligations issued | <u>22,875</u> |
| Net change in fund balance | 19,883 |
| Fund balance, beginning of year | <u>765,394</u> |
| Fund balance, end of year | <u>\$ 785,277</u> |

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

TOWN OF BROADWAY, NORTH CAROLINA
RECONCILIATION of the STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
For the Year Ended June 30, 2012

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

| | |
|--|-----------|
| Net changes in fund balance - total governmental funds | \$ 19,883 |
|--|-----------|

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, the gain/loss on disposal of those assets would also differ between the two statements in an amount equal to the basis of the asset reported on the date of disposal.

| | |
|---|----------|
| Addition to capital assets | 90,666 |
| Depreciation expense including dispositions | (47,784) |
| Asset disposal loss | (1,883) |

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

| | |
|---|---------|
| Change in deferred revenue for tax revenues | (1,525) |
| Change in deferred revenue for sanitation revenues | 344 |
| Change in deferred revenue for drug forfeiture revenues | 538 |

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

| | |
|--------------------------------------|----------|
| New long-term debt issued | (22,875) |
| Long-term debt retired | 15,689 |
| Increase in accrued interest expense | (912) |

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

| | |
|------------------------|-----------------|
| Compensated absences | (2,344) |
| Net pension obligation | <u>(17,990)</u> |

| | |
|--|------------------|
| Total changes in net assets of governmental activities | <u>\$ 31,807</u> |
|--|------------------|

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

TOWN OF BROADWAY, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2012

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|-------------------|--|
| Revenues: | | | | |
| Ad valorem taxes | \$ 367,174 | \$ 352,174 | \$ 362,866 | \$ 10,692 |
| Other taxes and licenses | 198,800 | 198,800 | 218,786 | 19,986 |
| Unrestricted intergovernmental revenues | 63,688 | 63,688 | 58,636 | (5,052) |
| Restricted intergovernmental revenues | 36,434 | 53,648 | 54,731 | 1,083 |
| Contributions & donations | - | 22,645 | 22,321 | (324) |
| Drug forfeiture revenues | 4,000 | 4,000 | - | (4,000) |
| Sales and services | 85,386 | 85,386 | 84,391 | (995) |
| Investment earnings | 7,500 | 7,500 | 4,445 | (3,055) |
| Miscellaneous | <u>17,738</u> | <u>45,759</u> | <u>31,787</u> | <u>(13,972)</u> |
| Total revenues | <u>780,720</u> | <u>833,600</u> | <u>837,963</u> | <u>4,363</u> |
| Expenditures: | | | | |
| Current operating: | | | | |
| General government | 397,467 | 414,681 | 383,170 | 31,511 |
| Public safety | 260,623 | 273,644 | 280,743 | (7,099) |
| Transportation | 37,470 | 93,970 | 70,208 | 23,762 |
| Environmental protection | 81,390 | 81,390 | 81,367 | 23 |
| Cultural and recreational | <u>9,162</u> | <u>32,662</u> | <u>25,467</u> | <u>7,195</u> |
| Total expenditures | <u>786,112</u> | <u>896,347</u> | <u>840,955</u> | <u>55,392</u> |
| Revenues over (under) expenditures | <u>(5,392)</u> | <u>(62,747)</u> | <u>(2,992)</u> | <u>59,755</u> |
| Other financing sources: | | | | |
| Capital lease obligations issued | <u>-</u> | <u>-</u> | <u>22,875</u> | <u>22,875</u> |
| Fund balance appropriated | 5,392 | 62,747 | - | (62,747) |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | 19,883 | <u>\$ 19,883</u> |
| Fund balance, beginning of year | | | <u>765,394</u> | |
| Fund balance, end of year | | | <u>\$ 785,277</u> | |

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

TOWN OF BROADWAY, NORTH CAROLINA
STATEMENT OF NET ASSETS - PROPRIETARY FUND
June 30, 2012

| | Business-type Activities - Enterprise |
|---|---|
| | Major Fund - Water and Sewer Fund |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 425,404 |
| Accounts receivable, net of allowance of \$19,764 | 43,521 |
| Other receivables | 15 |
| Prepaid items | <u>87</u> |
| Total current assets | <u>469,027</u> |
| Non-current assets: | |
| Deferred bond issue costs, net | 8,676 |
| Capital assets: | |
| Land, improvements and construction in progress | 60,934 |
| Other capital assets, net of accumulated depreciation | <u>1,639,504</u> |
| Total capital assets | <u>1,700,438</u> |
| Total non-current assets | <u>1,709,114</u> |
| Total assets | <u>\$ 2,178,141</u> |
| LIABILITIES AND NET ASSETS | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | \$ 11,279 |
| Compensated absences | 5,995 |
| Customer deposits | 22,059 |
| General obligation bonds - current | 57,000 |
| Due to general fund | <u>55,447</u> |
| Total current liabilities | 151,780 |
| Non-current liabilities: | |
| General obligation bonds payable-noncurrent | <u>498,000</u> |
| Total non-current liabilities | 498,000 |
| Total liabilities | <u>649,780</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 1,145,438 |
| Unrestricted | <u>382,923</u> |
| Total net assets | <u>\$ 1,528,361</u> |

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

TOWN OF BROADWAY, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUND
For the Year Ended June 30, 2012

| | Business-type Activities - Enterprise |
|---|--|
| | <u>Major Fund - Water and Sewer Fund</u> |
| OPERATING REVENUES | |
| Charges for services | \$ 351,866 |
| Connection and tap fees | 19,286 |
| Other operating revenues | <u>475</u> |
| Total operating revenues | <u>371,627</u> |
| OPERATING EXPENSES | |
| Water and sewer operations | 214,892 |
| Depreciation | <u>99,673</u> |
| Total operating expenses | <u>314,565</u> |
| Operating income (loss) | <u>57,062</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment earnings | 263 |
| Interest | (21,129) |
| Debt issuance cost | <u>(973)</u> |
| Total nonoperating revenue (expenses) | <u>(21,839)</u> |
| Change in net assets | 35,223 |
| Total net assets, beginning | <u>1,493,138</u> |
| Total net assets, ending | <u>\$ 1,528,361</u> |

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

TOWN OF BROADWAY, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
For the Year Ended June 30, 2012

| | Business-type Activities - Enterprise Major Fund - Water and Sewer Fund |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 373,277 |
| Cash paid for goods and services | (170,369) |
| Cash paid to employees for services | (45,272) |
| Customer deposits received, net | 475 |
| Grant contribution returned | <u>(1,200)</u> |
| Net cash provided by operating activities | <u>156,911</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| General fund loan payment | <u>(15,000)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on bonds | (55,000) |
| Interest paid on bonds | (21,129) |
| Acquisition and construction of capital assets | <u>(20,495)</u> |
| Net cash used in capital and related financing activities | <u>(96,624)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments | <u>263</u> |
| Net increase in cash and cash equivalents | 45,550 |
| Balances, beginning | <u>379,854</u> |
| Balances, ending | <u>\$ 425,404</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 57,062 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 98,700 |
| Bad debt expense | 2,372 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (722) |
| Increase in prepaid items | (87) |
| Decrease in deferred bond issue costs | 973 |
| Decrease in accounts payable | (903) |
| Increase in accrued vacation pay | 241 |
| Decrease in grant payable | (1,200) |
| Increase in customer deposits | <u>475</u> |
| Net cash provided by operating activities | <u>\$ 156,911</u> |

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

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Broadway (the "Town") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation which is governed by an elected mayor and a five-member council.

B. Basis of Presentation

Government-wide Statements - The statement of net assets and the statement of activities display information on all of the financial activities of the overall government, except for fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements, which 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 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. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational requirements of a particular program and (c) capital grants and contributions which are program specific. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds.

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 fund:

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

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. 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 are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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 generally recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within the 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.

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, Lee County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Lee County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes which were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Town Manager and Finance Officer are authorized by budget ordinance to transfer appropriations between functional areas within a department; however, any revisions that alter the total expenditures of any fund or department must be approved by the governing board.

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

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

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

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

As required by State law [G.S. 159-26(d)], the Town maintains encumbrance accounts that are considered to be "budgetary accounts".

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

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

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

2. Cash and Cash Equivalents

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

3. Restricted Assets

Powell Bill funds are 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. Money that has been contributed for cultural and recreation projects are restricted as specified by the revenue source and are also classified as restricted cash. Money that is the unspent portion of grant funds that is restricted for public safety expenditures is also classified as restricted cash.

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 levied are based on the assessed values as of January 1, 2011. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Due to/from Other Funds

At June 30, 2012, the Water and Sewer Fund owed the General Fund \$55,447. The Water and Sewer Fund borrowed money from the General Fund to pay off water & sewer bonds.

7. 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.

8. Capital Assets

Capital assets which include property, plant, equipment and infrastructure are reported in the Town's government-wide and proprietary fund financial statements. Capital assets of the Town generally have an initial, individual cost of more than \$2,000 and an estimated useful life of more than one year. Assets are stated at cost if purchased or constructed. Donated capital assets are recorded at their estimated fair value at the date of donation. Certain items acquired before July 1, 1970, are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when fixed assets are considered as a whole. The Town has elected not to retroactively report major general infrastructure. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

The Town has elected not to capitalize those interest costs incurred during the construction period of capital assets used in governmental funds.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital assets are depreciated using the straight-line method over the assets' estimated useful lives. Assets acquired under capital leases are amortized over the assets' estimated useful lives. Capital assets are reported in the Town's basic financial statements net of accumulated depreciation and amortization. Water and sewer lines are depreciated on a composite straight-line basis for the entire plant, regardless of the year of acquisition, at a 1.67% rate. In the composite rate, gain or loss on dispositions is not calculated except in extraordinary circumstances. Other assets are depreciated at the following rates:

| | |
|--|----------|
| Buildings | 40 years |
| Furniture and office equipment | 10 years |
| Maintenance and construction equipment | 5 years |
| Motor vehicles | 5 years |
| Water and sewer equipment | 15 years |

9. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the 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. Material bond issuance costs are deferred and amortized over the life of the bonds using the effective interest method.

In fund financial statements, governmental fund types recognize bond issuance costs during the current period. Bond proceeds are reported as other financing sources. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

The Town's long-term debt for water and sewer purposes is carried in the Water and Sewer Fund. The debt service requirements for the water and sewer debt are being met by water and sewer revenues, but the taxing power of the Town is pledged to make these payments if water and sewer revenues should ever be insufficient.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) 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. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Accumulated sick leave at June 30, 2012 amounted to \$190,006 in total, of which \$151,399 relates to governmental funds. 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.

**TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

11. Net Assets/Fund Balance

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows;

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 intact.

 Prepaid items – portion of fund balance that is not an available resource because it represents certain payments to vendors applicable to future accounting periods and is therefore not a spendable resource.

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

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

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

 Restricted for Cultural & Recreation – portion of fund balance that is restricted by revenue source for beautification projects.

 Restricted for Cultural & Recreation – portion of fund balance that is restricted by revenue source for facade improvement projects.

 Restricted for Public Safety – portion of fund balance that is restricted by revenue source for public safety expenditures.

Committed Fund Balance – 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). Any changes or removal of specific purpose requires majority action by the governing board.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Assigned fund balance – portion of fund balance that the Town intends to use for specific purposes.

Assigned for Cultural & Recreation – portion of fund balance assigned by the Board for festival events.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriations within departments.

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

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. 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.

The Town does not have a formal fund balance policy.

II. DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All of the Town's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's 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 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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

At June 30, 2012, the Town's deposits had a carrying amount of \$1,114,415 and a bank balance of \$1,126,322. Of the bank balance \$500,000 was covered by federal depository insurance and \$500,006 was covered by collateral held by authorized escrow agents in the name of the Town.

2. Receivables – Allowance for Doubtful Accounts

The amount of property taxes receivable as of June 30, 2012 reflect the uncollected portion of property tax levies reduced for a portion not expected to be collected and are summarized below:

| | <u>General Fund</u> |
|---------------------------------|---------------------|
| Property taxes receivable | \$ 21,680 |
| Less allowance for collectibles | <u>5,829</u> |
| Net property taxes receivable | <u>\$ 15,851</u> |

Accounts receivables as of June 30, 2012, including the applicable allowances for uncollectible accounts, are as follows:

| | <u>General Fund</u> | <u>Enterprise Fund</u> |
|---------------------------------|---------------------|------------------------|
| Waste management fees | \$ 10,613 | \$ - |
| Utility user charges | - | 56,378 |
| Other | <u>350</u> | <u>6,907</u> |
| Total receivables | 10,963 | 63,285 |
| Less allowance for collectibles | <u>2,770</u> | <u>19,764</u> |
| Net total receivables | <u>\$ 8,193</u> | <u>\$ 43,521</u> |

Due from other governments that is owed to the Town consist of the following:

| | <u>General Fund</u> |
|--------------------------|---------------------|
| Local option sales tax | \$ 36,622 |
| Property tax | 7,855 |
| Sales and use tax | 4,343 |
| Solid waste disposal tax | 193 |
| Utility franchise tax | <u>13,061</u> |
| Total | <u>\$ 62,074</u> |

3. Interfund Balances

At June 30, 2012, \$55,447 was due to the general fund from the proprietary fund. The Town's bonded debt service was re-financed during fiscal year end 2001. At that time, the Town's general fund loaned the utility fund \$207,925 to be paid back over time.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

4. Capital Assets

Capital assets at June 30, 2012 are summarized below:

Governmental activities by function:

| | <u>July 1, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2012</u> |
|---|---------------------|------------------|------------------|----------------------|
| General government | \$ 846,657 | \$ 65,640 | \$ 3,964 | \$ 908,333 |
| Public safety | 87,441 | 25,026 | 26,253 | 86,214 |
| Transportation | 14,400 | - | - | 14,400 |
| Environmental protection | 12,000 | - | - | 12,000 |
| Cultural and recreational | <u>65,400</u> | <u>-</u> | <u>-</u> | <u>65,400</u> |
| | <u>1,025,898</u> | <u>90,666</u> | <u>30,217</u> | <u>1,086,347</u> |
| Less accumulated depreciation for: | | | | |
| General government | 256,284 | 36,930 | 3,964 | 289,250 |
| Public safety | 53,264 | 10,854 | 24,370 | 39,748 |
| Transportation | 14,400 | - | - | 14,400 |
| Environ. protection | <u>12,000</u> | <u>-</u> | <u>-</u> | <u>12,000</u> |
| | <u>335,948</u> | <u>47,784</u> | <u>28,334</u> | <u>355,398</u> |
| Governmental activities capital assets, net | <u>\$ 689,950</u> | | | <u>\$ 730,949</u> |

Governmental activities by type:

| | | | | |
|---|-------------------|---------------|---------------|-------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 256,754 | \$ - | \$ - | \$ 256,754 |
| Depreciable assets: | | | | |
| Buildings & infrastructure | 569,761 | 65,640 | - | 635,401 |
| Furniture & equipment | 39,086 | - | 7,620 | 31,466 |
| Vehicles | <u>160,297</u> | <u>25,026</u> | <u>22,597</u> | <u>162,726</u> |
| Total depreciable assets | <u>769,144</u> | <u>90,666</u> | <u>30,217</u> | <u>829,593</u> |
| Less accumulated depreciation for: | | | | |
| Buildings & infrastructure | 181,506 | 29,806 | - | 211,312 |
| Furniture & equipment | 33,489 | 1,718 | 7,620 | 27,587 |
| Vehicles | <u>120,953</u> | <u>16,260</u> | <u>20,714</u> | <u>116,499</u> |
| Total accumulated depreciation | <u>335,948</u> | <u>47,784</u> | <u>28,334</u> | <u>355,398</u> |
| Depreciable assets, net | <u>433,196</u> | | | <u>474,195</u> |
| Governmental activities capital assets, net | <u>\$ 689,950</u> | | | <u>\$ 730,949</u> |

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

Business-type activities by type:

| | <u>July 1, 2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2012</u> |
|--|---------------------|------------------|------------------|----------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 60,934 | \$ - | \$ - | \$ 60,934 |
| Total non-depreciable assets | <u>60,934</u> | <u>-</u> | <u>-</u> | <u>60,934</u> |
| Depreciable assets: | | | | |
| Water tank | 103,892 | - | - | 103,892 |
| Water system | 767,971 | - | 39,980 | 727,991 |
| Vehicles | 16,710 | - | - | 16,710 |
| Sewer system | 1,973,817 | - | - | 1,973,817 |
| Sewer pumps | 199,107 | 20,495 | - | 219,602 |
| Waste water treatment | <u>816,112</u> | <u>-</u> | <u>-</u> | <u>816,112</u> |
| Total depreciable assets | <u>3,877,609</u> | <u>20,495</u> | <u>39,980</u> | <u>3,858,124</u> |
| Less accumulated depreciation for: | | | | |
| Water tank | 48,549 | 1,623 | - | 50,172 |
| Water system | 382,657 | 13,562 | 39,980 | 356,239 |
| Equipment & vehicles | 16,712 | - | - | 16,712 |
| Sewer system | 1,172,946 | 48,537 | - | 1,221,483 |
| Sewer pumps | 114,624 | 7,697 | - | 122,321 |
| Waste water treatment | <u>423,439</u> | <u>28,254</u> | <u>-</u> | <u>451,693</u> |
| Total accumulated depreciation | <u>2,158,927</u> | <u>99,673</u> | <u>39,980</u> | <u>2,218,620</u> |
| Depreciable assets, net | <u>1,718,682</u> | | | <u>1,639,504</u> |
| Business-type activities capital assets, net | <u>\$ 1,779,616</u> | | | <u>\$ 1,700,438</u> |

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy - Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.00% and 7.05%, 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

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

LGERS for years ended June 30, 2012, 2011 and 2010 were \$24,364, \$22,581 and \$16,856, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description:*

The Town of Broadway 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 0.85 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. The Plan does not maintain separate financial statements since the Plan will be funded when expenditures become due.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

| | |
|--|-----------------|
| Retirees receiving benefits | 0 |
| Terminated plan members entitled to but not yet receiving benefits | 0 |
| Active plan members | <u>4</u> |
| Total | <u><u>4</u></u> |

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

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

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

3. *Contributions:*

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

The Town has chosen not to have an actuarial study performed because the liability is considered to be immaterial. However, the Town has estimated its funding liability as of June 30, 2012 to be \$60,132 and has included the amount in non-current liabilities.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy - Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$18,375, which consisted of \$9,925 from the Town and \$8,450 from the law enforcement officers.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the Town made contributions to the State for death benefits of \$445. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.12% and 0.14% of covered payroll, respectively. The contribution to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

**TOWN OF BROADWAY, NORTH CAROLINA
 NOTES TO THE FINANCIAL STATEMENTS
 For the Fiscal Year Ended June 30, 2012**

II. DETAIL NOTES ON ALL FUNDS (Continued):

3. Deferred/Unearned Revenues

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

Fund financial statements:

| | <u>General Fund</u> |
|---------------------------------|-------------------------|
| Prepaid taxes (unearned) | \$ 1,384 |
| Property taxes receivable, net | 15,851 |
| Sanitation fees receivable, net | 7,844 |
| Unspent grant funds | <u>4,930</u> |
| | <u>\$ 30,009</u> |

There are unearned revenues in the amount of \$1,384 recorded in the government-wide financial statements.

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance in the amount of \$1,000,000 for these types of losses under a policy with a major national insurer. The finance officer and the town clerk are individually bonded for \$50,000 each. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town of Broadway does not carry flood insurance due to the fact that none of the Town is located in a flood zone.

5. Commitments

The Town has a five year contract expiring June 30, 2013 with an annual budgeted expenditure of \$73,500 for the collection and disposal of garbage.

6. Long-Term Obligations

a. General Obligation Bonds

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

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

Bonds payable at June 30, 2012 are comprised of the following individual issues:

| | |
|---|-------------------|
| Series 2011 General Obligation Refunding Bond - \$610,000 issued May 3, 2011; 3.49%, due serially from 2012 to 2021 | \$ 555,000 |
| Less amounts currently due | <u>57,000</u> |
| Long-term liabilities | <u>\$ 498,000</u> |

At June 30, 2012, the Town had no bonds authorized but unissued and a legal debt margin of approximately \$6.5 million.

Annual debt service requirements to maturity for general obligation bonds, including interest, of \$122,340 on the water and sewer bonds, are as follows:

| Fiscal Year ending June 30 | <u>Business-type activities</u> | |
|----------------------------------|---------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2013 | \$ 57,000 | \$ 19,370 |
| 2014 | 58,000 | 17,380 |
| 2015 | 59,000 | 15,356 |
| 2016 | 60,000 | 13,297 |
| 2017 | 62,000 | 11,203 |
| 2018-2021 | <u>259,000</u> | <u>22,789</u> |
| Total | <u>\$ 555,000</u> | <u>\$ 99,395</u> |

b. Capital Leases

The Town of Broadway has entered into lease agreements with Ford Motor Credit Company for financing the acquisition of police cars. The lease agreements are for three years with annual payments. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the minimum lease payments as of the inception date.

The following is an analysis of the assets recorded under capital leases at June 30, 2012:

| <u>Asset</u> | <u>Cost</u> | <u>Governmental Activities</u> | |
|--------------|-------------|-------------------------------------|---------------------------|
| | | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
| Vehicles | \$47,798 | \$14,493 | \$33,305 |

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2012 were as follows:

| Fiscal Year Ending <u>June 30</u> | Governmental <u>Activities</u> |
|---|-----------------------------------|
| 2013 | \$ 8,110 |
| 2014 | 8,110 |
| Total minimum lease payments | 16,220 |
| Less: Amount representing interest | (1,455) |
| Present value of the minimum lease payments | <u>\$ 14,765</u> |

c. Changes in Long-term Liabilities

The following is a summary of changes in the Town's long-term debt for the year ended June 30, 2012.

| | <u>July 1, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2012</u> | <u>Due Within One Year</u> |
|----------------------------------|-------------------------|------------------|--------------------|--------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Capital lease | \$ 7,579 | \$ 22,875 | \$ 15,689 | \$ 14,765 | \$ 7,150 |
| Compensated absences | 32,021 | 17,394 | 15,050 | 34,365 | 34,365 |
| Net pension obligation | 42,142 | 17,990 | - | 60,132 | - |
| Total | <u>\$ 81,742</u> | <u>\$ 58,259</u> | <u>\$ 30,739</u> | <u>\$ 109,262</u> | <u>\$ 41,515</u> |
| Business-type activities: | | | | | |
| Bonded debt | \$610,000 | \$ - | \$ 55,000 | \$555,000 | \$ 57,000 |
| Compensated absences | 5,754 | 2,945 | 2,704 | 5,995 | 5,955 |
| Total | <u>\$615,754</u> | <u>\$ 2,945</u> | <u>\$ 57,704</u> | <u>\$560,995</u> | <u>\$ 62,955</u> |

C. Revenue, Expenditures and Expenses

Developer Contract

The Town entered into a contract with a private land developer during the year ended June 30, 1997. Significant provisions of the contract are that the land developer will construct the water and sewer facilities within the proposed development. Upon completion, the developer will convey the water and sewer facilities to the Town. The Town will charge a usage fee in addition to the regular tap-on fee to property owners within the sub-division, with the usage fee to be calculated based on per front footage of the lot. The Town will collect the usage fee and remit the fee to the developer at least quarterly during the development period. As of June 30, 2012, the development is not complete.

TOWN OF BROADWAY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2012

II. DETAIL NOTES ON ALL FUNDS (Continued):

D. Fund Balance

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

| | |
|--|------------------|
| <i>Total fund balance-General Fund</i> | \$785,277 |
| Less: | |
| Prepaid items | 2,750 |
| Stabilization by State Statute | 112,940 |
| Streets-Powell Bill | 131,229 |
| Cultural & recreational-Beautification | 910 |
| Cultural & recreational-Facade | 1,592 |
| Cultural & recreational-Festival | 16,576 |
| Public Safety-Controlled substance tax | 4,930 |
| Appropriated Fund Balance in 2013 budget | 390 |
| Remaining Fund Balance | 513,960 |

TOWN OF BROADWAY, NORTH CAROLINA
GENERAL FUND
COMPARATIVE BALANCE SHEETS
June 30, 2012
With Comparative Totals at June 30, 2011

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and investments | \$ 550,350 | \$ 512,215 |
| Restricted cash | 138,661 | 147,388 |
| Taxes receivable, net | 15,851 | 17,376 |
| Accounts receivable, net | 8,193 | 7,988 |
| Due from other governmental agencies | 62,074 | 54,241 |
| Due from water and sewer fund | 55,447 | 70,447 |
| Prepaid items | <u>2,750</u> | <u>-</u> |
| Total assets | <u>\$ 833,326</u> | <u>\$ 809,655</u> |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 18,040 | \$ 13,635 |
| Deferred revenue | 28,625 | 29,268 |
| Unearned revenue | <u>1,384</u> | <u>1,358</u> |
| Total liabilities | <u>48,049</u> | <u>44,261</u> |
| Fund balances: | | |
| Non-spendable | | |
| Prepaid expenses | 2,750 | - |
| Restricted | | |
| Stabilization by State Statute | 112,940 | 120,784 |
| Streets | 131,229 | 140,494 |
| Cultural and Recreational | 2,502 | 2,502 |
| Public safety | 4,930 | 4,392 |
| Assigned | | |
| Cultural and Recreational | 16,576 | 14,661 |
| Subsequent year's expenditures | 390 | 390 |
| Unassigned | <u>513,960</u> | <u>482,171</u> |
| Total fund balances | <u>785,277</u> | <u>765,394</u> |
| Total liabilities and fund balances | <u>\$ 833,326</u> | <u>\$ 809,655</u> |

TOWN OF BROADWAY, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2011

| | 2012 | | Variance with Final Budget | 2011 |
|---|-----------------|----------------|----------------------------------|----------------|
| | Final Budget | Actual | | Actual |
| Revenues: | | | | |
| Ad valorem taxes: | | | | |
| Taxes | \$ 352,174 | \$ 360,854 | \$ 8,680 | \$ 351,185 |
| Interest | - | 2,012 | 2,012 | 1,914 |
| Total | <u>352,174</u> | <u>362,866</u> | <u>10,692</u> | <u>353,099</u> |
| Other taxes and licenses: | | | | |
| Local option sales tax | <u>198,800</u> | <u>218,786</u> | <u>19,986</u> | <u>191,657</u> |
| Unrestricted intergovernmental revenues: | | | | |
| Utility franchise tax | 58,000 | 53,312 | | 67,532 |
| State sales tax | 1,000 | - | | 540 |
| Beer and wine tax | <u>4,688</u> | <u>5,324</u> | | <u>4,899</u> |
| Total | <u>63,688</u> | <u>58,636</u> | <u>(5,052)</u> | <u>72,971</u> |
| Restricted intergovernmental revenues: | | | | |
| Powell Bill allocation | 36,434 | 37,724 | | 34,632 |
| Other local government | 17,214 | 16,070 | | - |
| Solid waste disposal tax | - | 937 | | 1,006 |
| Total | <u>53,648</u> | <u>54,731</u> | <u>1,083</u> | <u>35,638</u> |
| Contributions & Donations | <u>22,645</u> | <u>22,321</u> | <u>(324)</u> | <u>21,375</u> |
| Drug Forfeiture revenues | <u>4,000</u> | <u>-</u> | <u>(4,000)</u> | <u>-</u> |
| Sales and services: | | | | |
| Cemetery | 7,500 | 6,875 | | 11,300 |
| Community building rent | 6,000 | 7,515 | | 5,560 |
| Sanitation fees | 71,586 | 69,761 | | 60,659 |
| Police fee | 300 | 240 | | 419 |
| Total | <u>85,386</u> | <u>84,391</u> | <u>(995)</u> | <u>77,938</u> |
| Investment earnings | <u>7,500</u> | <u>4,445</u> | <u>(3,055)</u> | <u>8,494</u> |
| Miscellaneous: | | | | |
| Cell tower rent | 15,738 | 15,739 | | 15,133 |
| Other | <u>30,021</u> | <u>16,048</u> | | <u>951</u> |
| Total | <u>45,759</u> | <u>31,787</u> | <u>(13,972)</u> | <u>16,084</u> |
| Total revenues | <u>833,600</u> | <u>837,963</u> | <u>4,363</u> | <u>777,256</u> |

TOWN OF BROADWAY, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (CONTINUED)
For the Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2011

| | 2012 | | Variance with Final Budget | 2011 |
|--------------------------|-----------------|----------------|----------------------------------|----------------|
| | Final Budget | Actual | | Actual |
| Expenditures: | | | | |
| General government: | | | | |
| Governing body: | | | | |
| Salaries and benefits | | \$ 9,301 | | \$ 9,301 |
| Operating expenditures | | 3,241 | | 55 |
| | <u>13,610</u> | <u>12,542</u> | <u>1,068</u> | <u>9,356</u> |
| Administration: | | | | |
| Salaries and benefits | | 72,688 | | 70,693 |
| Operating expenditures | | 35,632 | | 47,879 |
| Capital outlay | | - | | - |
| | <u>120,613</u> | <u>108,320</u> | <u>12,293</u> | <u>118,572</u> |
| Finance: | | | | |
| Salaries and benefits | | 73,028 | | 70,519 |
| Operating expenditures | | 34,821 | | 35,352 |
| | <u>108,700</u> | <u>107,849</u> | <u>851</u> | <u>105,871</u> |
| Public buildings: | | | | |
| Salaries and benefits | | 93,943 | | 91,711 |
| Operating expenditures | | 38,672 | | 38,817 |
| Capital outlay | | 21,450 | | - |
| | <u>171,358</u> | <u>154,065</u> | <u>17,293</u> | <u>130,528</u> |
| Cemetery: | | | | |
| Operating expenditures | 400 | 394 | 6 | 688 |
| Total general government | <u>414,681</u> | <u>383,170</u> | <u>31,511</u> | <u>365,015</u> |
| Public safety: | | | | |
| Police: | | | | |
| Salaries and benefits | | 198,853 | | 197,394 |
| Operating expenditures | | 40,636 | | 25,617 |
| Capital lease | | 16,227 | | 8,117 |
| Capital outlay | | 25,027 | | - |
| Total public safety | <u>273,644</u> | <u>280,743</u> | <u>(7,099)</u> | <u>231,128</u> |

(Continued)

TOWN OF BROADWAY, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (CONTINUED)
For the Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2011

| | 2012 | | Variance with Final Budget | 2011 |
|------------------------------------|-----------------|-------------------|----------------------------------|---------------------|
| | Final Budget | Actual | | Actual |
| Expenditures (Continued): | | | | |
| Transportation: | | | | |
| Streets: | | | | |
| Operating expenditures | | \$ 26,018 | | \$ 33,259 |
| Capital outlay | | 44,190 | | 167,830 |
| Total transportation | <u>93,970</u> | <u>70,208</u> | <u>23,762</u> | <u>201,089</u> |
| Environmental protection: | | | | |
| Operating expenditures | <u>81,390</u> | <u>81,367</u> | <u>23</u> | <u>77,246</u> |
| Cultural and recreational: | | | | |
| Operating expenditures | <u>32,662</u> | <u>25,467</u> | <u>7,195</u> | <u>22,560</u> |
| Total expenditures | <u>896,347</u> | <u>840,955</u> | <u>55,392</u> | <u>897,038</u> |
| Revenues over (under) expenditures | <u>(62,747)</u> | <u>(2,992)</u> | <u>59,755</u> | <u>(119,782)</u> |
| Other financing sources: | | | | |
| Capital lease obligations issued | <u>-</u> | <u>22,875</u> | <u>22,875</u> | <u>-</u> |
| Fund balance appropriated | 62,747 | - | (62,747) | - |
| Net change in fund balance | <u>\$ -</u> | <u>19,883</u> | <u>\$ 19,883</u> | <u>\$ (119,782)</u> |
| Fund balance, beginning of year | | <u>765,394</u> | | |
| Fund balance, end of year | | <u>\$ 785,277</u> | | |

TOWN OF BROADWAY, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2012
With Comparative Amounts for the Fiscal Year Ended June 30, 2011

| | 2012 | | Variance with Final Budget | 2011 |
|---|-----------------|------------------|----------------------------------|------------------|
| | Final Budget | Actual | | Actual |
| Revenues: | | | | |
| Operating revenues: | | | | |
| User charges water and sewer | \$ 336,817 | \$ 354,238 | \$ 17,421 | \$ 347,238 |
| Connection and tap fees | 16,600 | 19,286 | 2,686 | 17,160 |
| Other | 200 | 475 | 275 | 400 |
| Intergovernmental grant revenue | - | - | - | 3,758 |
| | <u>353,617</u> | <u>373,999</u> | <u>20,382</u> | <u>368,556</u> |
| Nonoperating revenues: | | | | |
| Interest on investments | <u>1,000</u> | <u>263</u> | <u>(737)</u> | <u>677</u> |
| Total revenues | <u>354,617</u> | <u>374,262</u> | <u>19,645</u> | <u>369,233</u> |
| Expenditures: | | | | |
| Water and sewer department: | | | | |
| Salaries and benefits | 61,027 | 59,060 | 1,967 | 56,238 |
| Operating expenditures | 76,845 | 59,244 | 17,601 | 55,514 |
| Repairs and maintenance | 16,800 | 13,071 | 3,729 | 17,291 |
| Water purchased | <u>87,000</u> | <u>83,517</u> | <u>3,483</u> | <u>74,997</u> |
| Total water and sewer department | <u>241,672</u> | <u>214,892</u> | <u>26,780</u> | <u>204,040</u> |
| Debt service: | | | | |
| Debt principal | 55,000 | 55,000 | - | 635,000 |
| Interest | 22,945 | 21,129 | 1,816 | 35,787 |
| Debt issuance cost | - | - | - | 9,762 |
| Total debt service | <u>77,945</u> | <u>76,129</u> | <u>1,816</u> | <u>680,549</u> |
| Capital outlay: | <u>35,000</u> | <u>20,495</u> | <u>14,505</u> | <u>26,627</u> |
| Total expenditures | <u>354,617</u> | <u>311,516</u> | <u>43,101</u> | <u>911,216</u> |
| Revenues in excess of (less than) expenditures | - | 62,746 | 62,746 | (541,983) |
| Other financing sources: | | | | |
| Refunding bond proceeds | - | - | - | 610,000 |
| Revenues and other financing sources in excess of expenditures | <u>\$ -</u> | <u>\$ 62,746</u> | <u>\$ 62,746</u> | <u>\$ 68,017</u> |
| Reconciliation of modified accrual basis to full accrual basis: | | | | |
| Revenues in excess of expenditures | | \$ 62,746 | | |
| Capital outlay | | 20,495 | | |
| Depreciation | | (99,673) | | |
| Debt issuance amortization | | (973) | | |
| Bad debt allowance | | (2,372) | | |
| Payment of debt principal | | <u>55,000</u> | | |
| Increase in Net Assets | | <u>\$ 35,223</u> | | |

TOWN OF BROADWAY, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2012

| <u>Fiscal year</u> | <u>Uncollected balance June 30, 2011</u> | <u>Additions</u> | <u>Collections and credits</u> | <u>Uncollected balance June 30, 2012</u> |
|--|--|-------------------|------------------------------------|--|
| 2011-2012 | \$ - | \$ 362,168 | \$ (352,781) | \$ 9,387 |
| 2010-2011 | 9,582 | - | (6,587) | 2,995 |
| 2009-2010 | 3,933 | - | (1,367) | 2,566 |
| 2008-2009 | 1,772 | - | (48) | 1,724 |
| 2007-2008 | 916 | - | (56) | 860 |
| 2006-2007 | 1,175 | - | (9) | 1,166 |
| 2005-2006 | 1,010 | - | (89) | 921 |
| 2004-2005 | 701 | - | - | 701 |
| 2003-2004 | 524 | - | - | 524 |
| 2002-2003 | 843 | - | (7) | 836 |
| 2001-2002 | <u>1,045</u> | <u>-</u> | <u>(1,045)</u> | <u>-</u> |
| Net taxes receivable | <u>\$ 21,501</u> | <u>\$ 362,168</u> | <u>\$ (361,989)</u> | 21,680 |
| Less: allowance for uncollectable accounts | | | | <u>5,829</u> |
| Ad valorem taxes receivable - net | | | | <u>\$ 15,851</u> |
| Reconcilement with revenues: | | | | |
| Ad valorem taxes - General Fund | | | | \$ 362,866 |
| Reconciling items: | | | | |
| Interest collected | | | | (2,012) |
| Prior year prepaid motor vehicle taxes | | | | (1,358) |
| Taxes released and written off | | | | <u>2,493</u> |
| Subtotal | | | | <u>(877)</u> |
| Total collections and credits | | | | <u>\$ 361,989</u> |

**TOWN OF BROADWAY, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
For the Fiscal Year Ended June 30, 2012**

| | Town-wide | | Total levy | | |
|---------------------------------------|----------------------|---------|-------------------|--|---------------------------|
| | Property valuation | Rate | Total levy | Property excluding registered motor vehicles | Registered motor vehicles |
| Original levy: | | | | | |
| Property taxed at current year's rate | \$ 76,888,110 | \$ 0.44 | \$ 338,308 | \$ 314,007 | \$ 24,301 |
| Corporate utility | 2,358,099 | 0.44 | 10,376 | 10,376 | - |
| Motor vehicles at prior year's rate | 3,187,570 | 0.44 | 14,025 | - | 14,025 |
| Penalties | - | | 169 | 169 | - |
| | <u>82,433,779</u> | | <u>362,878</u> | <u>324,552</u> | <u>38,326</u> |
| Discoveries: | | | | | |
| Current year taxes | 188,172 | 0.44 | 828 | 828 | - |
| Penalties | - | | 3 | 3 | - |
| | <u>82,621,951</u> | | <u>363,709</u> | <u>325,383</u> | <u>38,326</u> |
| Abatements | <u>(349,389)</u> | | <u>(1,541)</u> | <u>(885)</u> | <u>(656)</u> |
| Total property valuation | <u>\$ 82,272,562</u> | | | | |
| Net levy | | | 362,168 | 324,498 | 37,670 |
| Uncollected taxes at June 30, 2012 | | | <u>9,387</u> | <u>5,612</u> | <u>3,775</u> |
| Current year's taxes collected | | | <u>\$ 352,781</u> | <u>\$ 318,886</u> | <u>\$ 33,895</u> |
| Current levy collection percentage | | | <u>97.41%</u> | <u>98.27%</u> | <u>89.98%</u> |