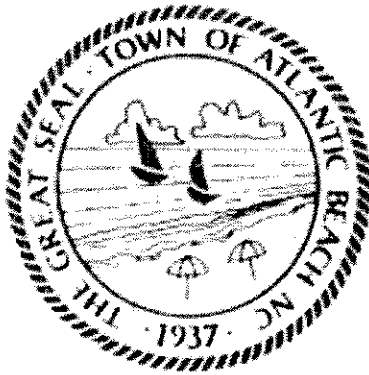


Financial Section

- Report of Independent Certified Public Accountants
- Management Discussion and Analysis
- Basic Financial Statements
- Notes to Basic Financial Statements
- Supplementary Information



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CARTER, WILLIAMS & SCARBOROUGH, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

RESPOND TO:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Atlantic Beach, North Carolina, as of and for the year ended June 30, 2004, 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 Atlantic Beach, North Carolina 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 accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Atlantic Beach, North Carolina as of June 30, 2004, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the general fund for year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Town adopted Governmental Accounting Standards Board (GASB) Statement Number 34 during the year ended June 30, 2004.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Atlantic Beach, North Carolina, taken as a whole. The individual fund statements and schedules, as well as the other statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other data included in this comprehensive annual financial report, designated as “statistical section” in the table of contents, have not been audited by us and, accordingly, we express no opinion on it.

Carter Williams & Scarborough, LLP
CARTER, WILLIAMS, & SCARBOROUGH, L.L.P.

December 16, 2004

Management's Discussion and Analysis

As management of the Town of Atlantic Beach, we offer readers of the Town of Atlantic Beach financial statements this narrative overview and analysis of the financial activities of the Town of Atlantic Beach (hereinafter referred to as "Town") for the fiscal year ended June 30, 2004. 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

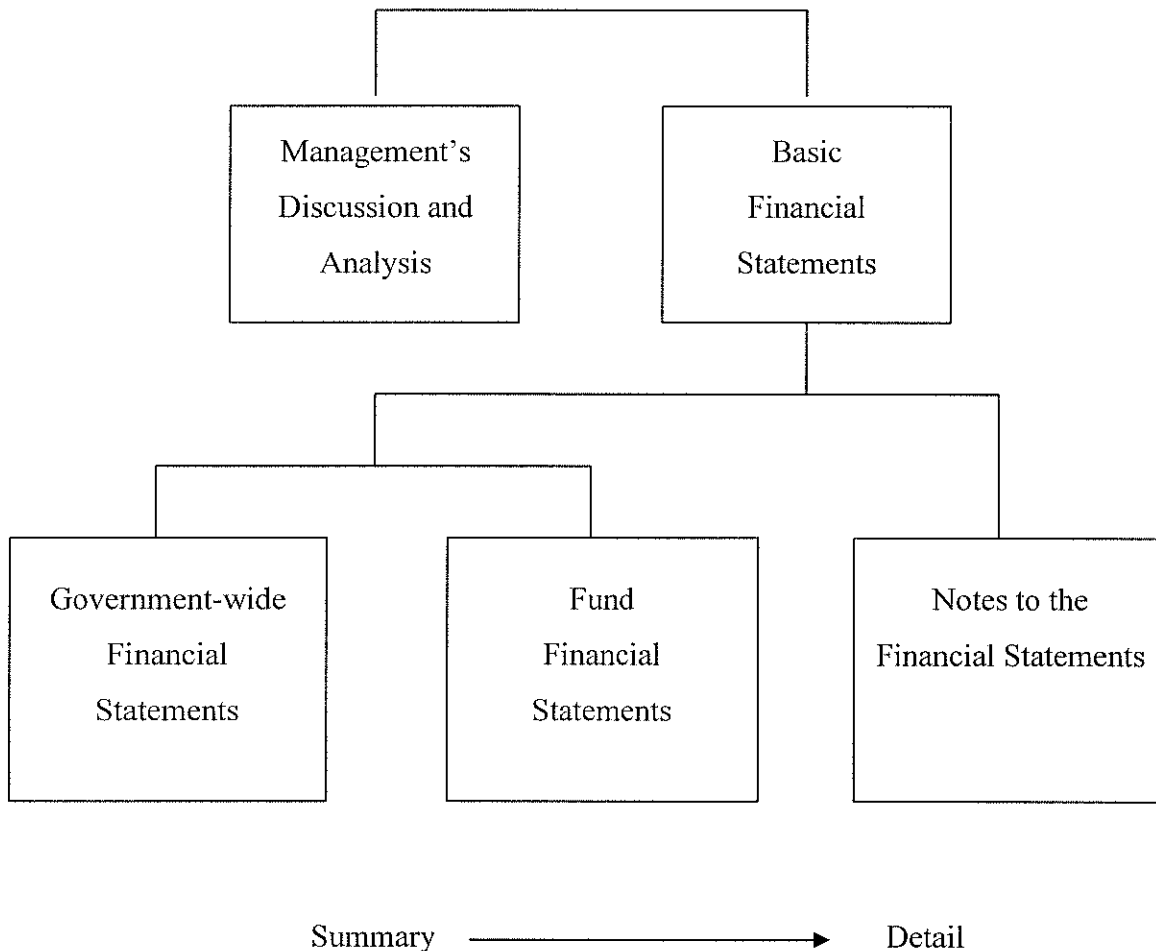
- The assets of the Town exceeded its liabilities at the close of the fiscal year by \$9,314,595 (*net assets*).
- The government's total net assets increased by \$132,403 due to increases in both the governmental and business type activities net assets.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,647,734 an increase of \$287,622 in comparison with the prior year. Approximately 89.59 percent of this total amount, or \$2,372,162, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,174,537, or 46.68 percent of total general fund expenditures for the fiscal year.
- The Town's total debt increased by \$371,457 (45.15%) during the current fiscal year. The key factors in this increase were installment purchase contracts totaling \$541,320 relating to the purchase by the Town of a new ambulance and fire truck.
- The Town has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting each consecutive year beginning with the June 30, 2000 annual report.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes,

supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, 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 Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds - The Town has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 31 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain other required schedules concerning the Town. The other schedules can be found beginning on page 49 of this report.

Government-Wide Financial Analysis

The government-wide financial statements for the fiscal year ended June 30, 2004 are the beginning of a new era in financial reporting for the Town and many other units of government across the United States. Prior to this year, the Town maintained their governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected the operations and net assets of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust the statements in such a way that the total column would represent the overall financial condition of the Town. These statements were basically the equivalent of the fund financial statements that appear in this report with fiduciary funds and two account groups, the long-term debt and the general fixed assets, added in.

The changes in the financial statement reporting model are mandated by the Governmental Accounting Standards Board (GASB). GASB Statement 34 dictated the changes you see in the

Town's financial reports as well as those of many other units of government. While the Town was required to implement these changes for the fiscal year ended June 30, 2004, other units were required to implement Statement 34 in 2002 and 2003, and any remaining governments will have implemented in 2004.

Because of the new reporting model, comparative data for all facets of this report are not available. When comparative numbers are accessible, they have been included, such as with net assets. Future years' reports will have more comparative data that will allow more opportunities for comparative analysis.

Town of Atlantic Beach - Net Assets
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 2,859,507	\$ 3,048,531	\$ 1,897,403	\$ 1,123,825	\$ 4,756,910	\$ 4,172,356
Capital assets	1,937,465	1,595,295	4,197,223	4,435,610	6,134,688	6,030,905
Total assets	<u>4,796,972</u>	<u>4,643,826</u>	<u>6,094,626</u>	<u>5,559,435</u>	<u>10,891,598</u>	<u>10,203,261</u>
Long-term liabilities outstanding	924,722	462,781	407,042	491,628	1,331,764	954,409
Other liabilities	200,580	171,187	44,659	33,284	245,239	204,471
Total liabilities	<u>1,125,302</u>	<u>633,968</u>	<u>451,701</u>	<u>524,912</u>	<u>1,577,003</u>	<u>1,158,880</u>
Net assets:						
Invested in capital assets, net of related debt	1,132,608	1,245,295	3,897,078	4,046,265	5,029,686	5,291,560
Restricted	-	-	-	-	-	-
Unrestricted	<u>2,539,062</u>	<u>2,877,344</u>	<u>1,745,847</u>	<u>988,258</u>	<u>4,284,909</u>	<u>3,865,602</u>
Total net assets	<u>\$ 3,671,670</u>	<u>\$ 4,122,639</u>	<u>\$ 5,642,925</u>	<u>\$ 5,034,523</u>	<u>\$ 9,314,595</u>	<u>\$ 9,157,162</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 \$9,314,595 as of June 30, 2004. The Town's net assets increased by \$132,403 for the fiscal year ended June 30, 2004. However, the largest portion (54.00%) 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.

Several particular aspects of the Town’s financial operations positively influenced the total unrestricted governmental net assets, notably, the continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.54%, which is comparable to the statewide average of 97.03%

Town of Atlantic Beach - Changes in Net Assets
Figure 3

	Governmental Activities 2004	Business -type Activities 2004	Total 2004
Revenues			
Program revenues			
Charges for services	770,022	928,482	1,698,504
Operating grants and contributions	179,594	-	179,594
General revenues			
Property taxes	1,949,565	-	1,949,565
Other taxes	860,920	-	860,920
Grants and contributions not restricted to specific programs	257,340	-	257,340
Other	80,815	49,718	130,533
Total Revenues	4,098,256	978,200	5,076,456
Expenses:			
General Government	625,401	-	625,401
Public Safety	2,410,147	-	2,410,147
Transportation	7,131	-	7,131
Public Works	1,081,454	-	1,081,454
Interest on long-term debt	14,979	-	14,979
Water	-	804,941	804,941
Total Expenses	4,139,112	804,941	4,944,053
Increase (decrease) in net assets before transfers	(40,856)	173,259	132,403
Transfers	125,000	(125,000)	-
Increase (decrease) in net assets after transfers	84,144	48,259	132,403
Net assets, July 1	3,587,526	5,594,666	9,182,192
Net assets, June 30	3,671,670	5,642,925	9,314,595

Governmental activities. Governmental activities increased the Town's net assets by \$84,144, thereby accounting for 63.55% of the total growth in the net assets of the Town.

Business-type activities: Business-type activities increased the Town's net assets by \$48,259 accounting for 36.45% of the total increase in the government's net assets.

Financial Analysis of the Town's Funds

As noted earlier, the Town 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, unreserved fund balance 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, unreserved fund balance of the General Fund was \$2,174,537, while total fund balance reached \$2,450,109. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 46.68 percent of total General Fund expenditures, while total fund balance represents 56.83 percent of that same amount.

At June 30, 2004, the governmental funds of Town reported a combined fund balance of \$2,647,734, a 7.98 percent decrease over last year.

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

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water Fund at the end of the fiscal year amounted to \$1,745,847. The total change in net assets for the proprietary funds was \$48,259.

Capital Asset and Debt Administration

Capital assets. The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2004, totals \$6,134,688 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles.

The Town acquired an ambulance and fire truck during the year, and there were no significant demolitions or disposals.

**Town of Atlantic Beach - Capital Assets
 (net of depreciation)
 Figure 4**

	Governmental Activities	Business-type Activities	Total
	2004	2004	2004
Land	\$ 962,967	\$ 934,400	\$ 1,897,367
Buildings and system	151,201	3,168,966	3,320,167
Machinery and equipment	84,172	70,170	154,342
Vehicles and motorized equipment	739,125	23,687	762,812
Total	\$ 1,937,465	\$ 4,197,223	\$ 6,134,688

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

Long-term Debt. As of June 30, 2004, the Town had total debt outstanding of \$1,194,202. Of this, \$389,345 is debt backed by the full faith and credit of the Town (bonded). The remainder of the Town’s debt represents installment purchases for government activities.

**Town of Atlantic Beach - Outstanding Debt
 General Obligation and Revenue Bonds
 Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ -	\$ -	\$ 389,345	\$ 472,745	\$ 389,345	\$ 472,745
Total	\$ -	\$ -	\$ 389,345	\$ 472,745	\$ 389,345	\$ 472,745

The Town's total debt increased by \$371,457 (45.15%) during the current fiscal year. The key factors in this increase were installment purchase contracts totaling \$541,320 relating to the purchase of a new ambulance and fire truck.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town is \$67,643,478.

Additional information regarding the Town's long-term debt can be found in note III.B.5.

Economic Factors and Next Year's Budgets and Rates

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

- Low unemployment. The Town is too small to be statistically categorized in unemployment figures. However, Carteret County as a whole has an unemployment rate of 2.8% is well below the State average of 5.4%.
- The Town is a resort community and does not have a significant manufacturing or industrial base. However, new small business development has been consistent.

Budget Highlights for the Fiscal Year Ending June 30, 2005

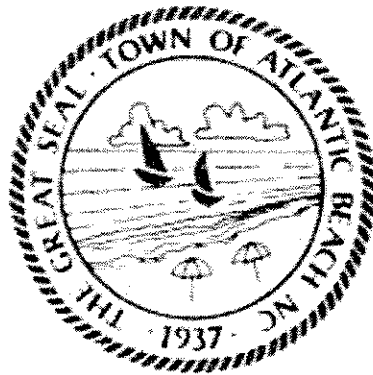
The Town's budget for the Fiscal Year Ending June 30, 2005 totals \$5,529,598 for all funds managed by the Town. As required by North Carolina General Statutes, the budget is balanced by a like amount of revenues and expenditures.

Governmental Activities: The Town's largest single source of revenue continues to be generated from ad valorem property taxes, which are 23/\$100 valuation tax rate on an \$845,543,478 tax base. This comprises 42.4% of General Fund estimated revenues. Fund Balance from the Town's General Fund was appropriated as a revenue source in the amount of \$240,711. The Town did not budget any significant increases in revenues or expenditures in this budget year for Governmental Activities.

Business – type Activities: The Town's business type activities which include the Town's water service, was budgeted with no major increase in revenues and expenditures from the previous year.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chuck Cooper, Town Manager, 125 West Fort Macon Road, Atlantic Beach, NC 28512.



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BASIC FINANCIAL STATEMENTS



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Town of Atlantic Beach, North Carolina
Statement of Net Assets
June 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,565,026	\$ 1,721,258	\$ 4,286,284
Taxes receivables (net)	15,151	-	15,151
Accounts receivable (net)	43,198	153,182	196,380
Due from other governments	236,132	-	236,132
Inventories	-	22,963	22,963
Total current assets	<u>2,859,507</u>	<u>1,897,403</u>	<u>4,756,910</u>
Restricted assets:			
Cash and cash equivalents	-	-	-
Capital assets (Note 4):			
Land, non-depreciable improvements, and construction in progress	962,967	934,400	1,897,367
Other capital assets, net of depreciation	974,498	3,262,823	4,237,321
Total capital assets	<u>1,937,465</u>	<u>4,197,223</u>	<u>6,134,688</u>
Total assets	<u>\$ 4,796,972</u>	<u>\$ 6,094,626</u>	<u>\$ 10,891,598</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 192,864	\$ 18,764	\$ 211,628
Unearned revenue	831	-	831
Accrued interest payable	6,885	-	6,885
Customer deposits	-	14,224	14,224
Customer advances	-	11,671	11,671
Payable from restricted assets	-	-	-
Long-term liabilities:			
Due within one year	121,799	89,200	210,999
Due in more than one year	802,923	317,842	1,120,765
Total liabilities	<u>1,125,302</u>	<u>451,701</u>	<u>1,577,003</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,132,608	3,879,381	5,011,989
Unrestricted	2,539,062	1,763,544	4,302,606
Total net assets	<u>\$ 3,671,670</u>	<u>\$ 5,642,925</u>	<u>\$ 9,314,595</u>

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

Town of Atlantic Beach, North Carolina
Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 625,401	\$ -	\$ -	-
Public safety	2,410,147	307,913	78,121	-
Transportation	7,131	-	64,444	-
Public Works	1,081,454	462,109	37,029	-
Interest on long-term debt	14,979	-	-	-
Total governmental activities (See Note 1)	4,139,112	770,022	179,594	-
Business-type activities:				
Water	804,941	928,482	-	-
Total business-type activities	804,941	928,482	-	-
Total primary government	\$ 4,944,053	\$ 1,698,504	\$ 179,594	\$ -

General revenues:

- Taxes:
 - Property taxes, levied for general purpose
 - Other taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Transfers
 - Total general revenues, special items, and transfers
 - Change in net assets
- Net assets, beginning as restated
- Net assets, ending

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

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (625,401)	\$ -	\$ (625,401)
(2,024,113)	-	(2,024,113)
57,313	-	57,313
(582,316)	-	(582,316)
(14,979)	-	(14,979)
(3,189,496)	-	(3,189,496)
-	123,541	123,541
-	123,541	123,541
(3,189,496)	123,541	(3,065,955)
1,949,565	-	1,949,565
860,920	-	860,920
257,340	-	257,340
23,170	15,684	38,854
57,645	34,034	91,679
125,000	(125,000)	-
3,273,640	(75,282)	3,198,358
84,144	48,259	132,403
3,587,526	5,594,666	9,182,192
\$ 3,671,670	\$ 5,642,925	\$ 9,314,595

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

Town of Atlantic Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2004

	Major General Fund	Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,367,401	\$ 197,625	\$ 2,565,026
Receivables, net:			
Taxes	15,151	-	15,151
Accounts	43,198	-	43,198
Due from other governments	236,132	-	236,132
Total assets	\$ 2,661,882	\$ 197,625	\$ 2,859,507
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 192,864	\$ -	\$ 192,864
Deferred/Unearned revenue	18,909	-	18,909
Total liabilities	211,773	-	211,773

(continued)

Town of Atlantic Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2004

	Major General Fund	Non-Major Funds	Total Governmental Funds
Fund balances:			
Reserved for:			
State statute	275,572	-	275,572
Streets Powell bill	219,985	-	219,985
Unreserved, General Fund	1,954,552	-	1,954,552
Unreserved, reported in:			
Special Revenue Funds	-	197,625	197,625
Total fund balances	2,450,109	197,625	2,647,734
Total liabilities and fund balances	\$ 2,661,882	\$ 197,625	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the	1,937,465
Liabilities for earned but deferred revenues in fund statements.	18,078
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds (Note 5).	(931,607)
Net assets of governmental activities	\$ 3,671,670

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

Town of Atlantic Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

	Major General Fund	Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 1,948,643	\$ -	\$ 1,948,643
Other taxes and licenses	826,115	-	826,115
Unrestricted intergovernmental	377,922	-	377,922
Restricted intergovernmental	118,597	-	118,597
Permits and fees	266,862	-	266,862
Sales and services	527,360	-	527,360
Investment earnings	23,628	562	24,190
Miscellaneous	93,422	-	93,422
Total revenues	<u>4,182,549</u>	<u>562</u>	<u>4,183,111</u>
EXPENDITURES			
Current:			
General government	558,815	-	558,815
Public safety	2,805,526	-	2,805,526
Transportation	15,131	-	15,131
Public works	1,076,810	-	1,076,810
Capital outlay	-	2,937	2,937
Debt service:			
Principal	86,463	-	86,463
Interest and other charges	16,127	-	16,127
Total expenditures	<u>4,558,872</u>	<u>2,937</u>	<u>4,561,809</u>
Revenue and other financing sources over (under) expenditures and other financing sources	<u>(376,323)</u>	<u>(2,375)</u>	<u>(378,698)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	125,000	100,000	225,000
Transfers to other funds	(100,000)	-	(100,000)
Proceeds of installment purchases	541,320	-	541,320
Total other financing sources (uses)	<u>566,320</u>	<u>100,000</u>	<u>666,320</u>
Net change in fund balance	189,997	97,625	287,622
Fund balance, beginning as previously reported	2,777,344	100,000	2,877,344
Prior period adjustment	(517,232)	-	(517,232)
Fund balance, beginning as restated	<u>2,260,112</u>	<u>100,000</u>	<u>2,360,112</u>
Fund balance, ending	<u>\$ 2,450,109</u>	<u>\$ 197,625</u>	<u>\$ 2,647,734</u>

(continued)

Town of Atlantic Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

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

Net changes in fund balances - total governmental funds \$ 287,622

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 342,170

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.
Change in deferred revenue for tax revenues (84,855)

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. (454,857)

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 (7,084)
Accrued interest payable 1,148

Total changes in net assets of governmental activities \$ 84,144

Town of Atlantic Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2004

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 1,910,400	\$ 1,910,400	\$ 1,948,643	\$ 38,243
Other taxes and licenses	762,000	762,000	826,115	64,115
Unrestricted intergovernmental	335,500	335,500	377,922	42,422
Restricted intergovernmental	259,000	113,353	118,597	5,244
Permits and fees	276,280	371,457	266,862	(104,595)
Sales and services	480,000	490,366	527,360	36,994
Investment earnings	35,000	35,000	23,628	(11,372)
Miscellaneous	35,000	86,743	93,422	6,679
Total revenues	<u>4,093,180</u>	<u>4,104,819</u>	<u>4,182,549</u>	<u>77,730</u>
EXPENDITURES:				
Current:				
General government	587,110	640,446	558,815	81,631
Public safety	2,432,060	2,898,096	2,805,526	92,570
Transportation	24,000	32,000	15,131	16,869
Public Works	1,257,680	1,144,056	1,076,810	67,246
Debt service:				
Principal retirement	66,070	86,463	86,463	-
Interest and other charges	-	16,090	16,127	(37)
Total expenditures	<u>4,366,920</u>	<u>4,817,151</u>	<u>4,558,872</u>	<u>258,279</u>
Revenues over (under) expenditures	<u>(273,740)</u>	<u>(712,332)</u>	<u>(376,323)</u>	<u>336,009</u>
OTHER FINANCING SOURCES (USES):				
Transfers from other funds	125,000	125,000	125,000	-
Transfers to other funds	(100,000)	(100,000)	(100,000)	-
Proceeds of installment purchases	71,400	506,320	541,320	35,000
Fund balance appropriated	177,340	181,012	-	(181,012)
Total other financing sources (uses)	<u>273,740</u>	<u>712,332</u>	<u>566,320</u>	<u>(146,012)</u>
Revenues and other financing sources over (under) expenditures and other financing use:	<u>\$ -</u>	<u>\$ -</u>	<u>189,997</u>	<u>\$ 189,997</u>
Fund balances, beginning as previously reported			2,777,344	
Prior period adjustment			<u>(517,232)</u>	
Fund balances, beginning as restated			2,260,112	
Fund balances, ending			<u>\$ 2,450,109</u>	

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

Town of Atlantic Beach, North Carolina
Statement of Net Assets
Proprietary Fund - Water Fund
June 30, 2004

	Water Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,721,258
Accounts receivable (net) - billed	86,606
Accounts receivable (net) - unbilled	66,576
Inventories	22,963
Total current assets	1,897,403
Non-current assets:	
Capital assets:	
Capital assets, net of depreciation	4,197,223
Total assets	6,094,626
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	18,764
Customer advances on water bills	11,671
Customer deposits	14,224
Current portion of long-term debt	89,200
Total current liabilities	133,859
Noncurrent liabilities:	
Noncurrent portion of long-term debt	317,842
Total liabilities	451,701
NET ASSETS	
Invested in capital assets, net of related debt	3,879,381
Unrestricted	1,763,544
Total net assets	\$ 5,642,925

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

Town of Atlantic Beach, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund - Water Fund
For the Year Ended June 30, 2004

	Water Fund
OPERATING REVENUES	
Charges for services	\$ 787,830
Water and sewer tap	140,652
Total operating revenues	928,482
OPERATING EXPENSES	
Administration	254,690
Water treatment and distribution	287,114
Depreciation	238,387
Total operating expenses	780,191
Operating income	148,291
NONOPERATING REVENUES (EXPENSES)	
Miscellaneous	34,034
Investment income	15,684
Interest expenses	(24,750)
Total nonoperating revenue (expenses)	24,968
Income before contributions and transfers	173,259
Transfers to other funds	(125,000)
Change in net assets	48,259
Total net assets, beginning as restated	5,594,666
Total net assets, ending	\$ 5,642,925

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

Town of Atlantic Beach, North Carolina
Statement of Cash Flows
Proprietary Fund - Water Fund
For the Year Ended June 30, 2004

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 917,222
Cash paid for employees and services	(523,448)
Net cash provided by operating activities	393,774
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Miscellaneous	34,034
Transfers to other funds	(125,000)
Net cash flows (used) by noncapital financing activities	(90,966)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bond maturities and equipment contracts	(83,400)
Interest paid on bond maturities and equipment contracts	(24,750)
Net cash provided (used) by capital and related financing activities	(108,150)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	15,684
Net increase in cash and cash equivalents	210,342
Balances, beginning as restated	1,510,916
Balances, ending	\$ 1,721,258

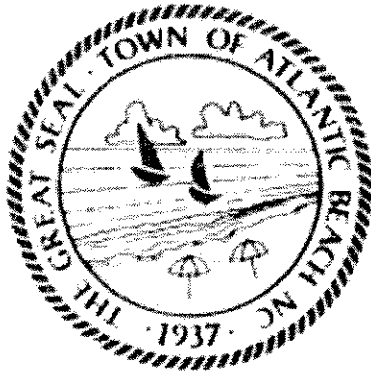
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Town of Atlantic Beach, North Carolina
Statement of Cash Flows
Proprietary Fund - Water Fund
For the Year Ended June 30, 2004

	Water Fund
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 148,291
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	238,387
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(11,260)
(Increase) decrease in inventory	8,167
Increase (decrease) in accounts payable and accrued liabilities	7,958
Increase in customer advances on water bills	1,218
Increase in customer deposits	2,199
Increase (decrease) in accrued vacation pay	(1,186)
Total adjustments	245,483
Net cash provided by operating activities	\$ 393,774

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

Notes to Basic
Financial Statements



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