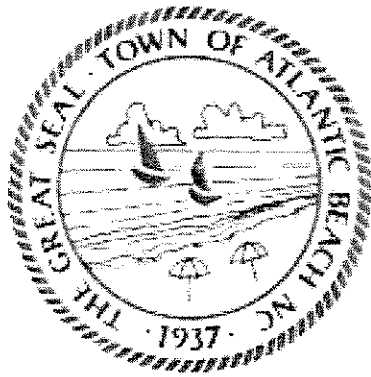


Financial Section

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



This Page Intentionally Left Blank

CARTER, WILLIAMS & SCARBOROUGH, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

CHRISTOPHER K. WILLIAMS, CPA
STEVEN N. SCARBOROUGH, CPA
CHARLES S. SMITH, CPA

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
NORTH CAROLINA ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

2131 S. GLENBURNIE RD
PO BOX 14008
NEW BERN NC 28561
TEL: (252) 636-4000
FAX: (252) 636-3989

824 GUM BRANCH ROAD, STE K
PO BOX 5003
JACKSONVILLE NC 28540
TEL: (910) 455-2196
FAX: (910) 455-1943

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, 2005, 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 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 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 respective 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, 2005, and the respective changes in financial position, where appropriate, thereof and the respective budgetary comparison for the General Fund for year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 5 through 13 and 49 and 50 respectively, 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 inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Atlantic Beach, North Carolina. The introductory information, combining, and individual nonmajor fund financial statements and schedules and the statistical tables, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied by us in the audit of basic financial statements and, accordingly, we express no opinion on them.

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

November 1, 2005

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 for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

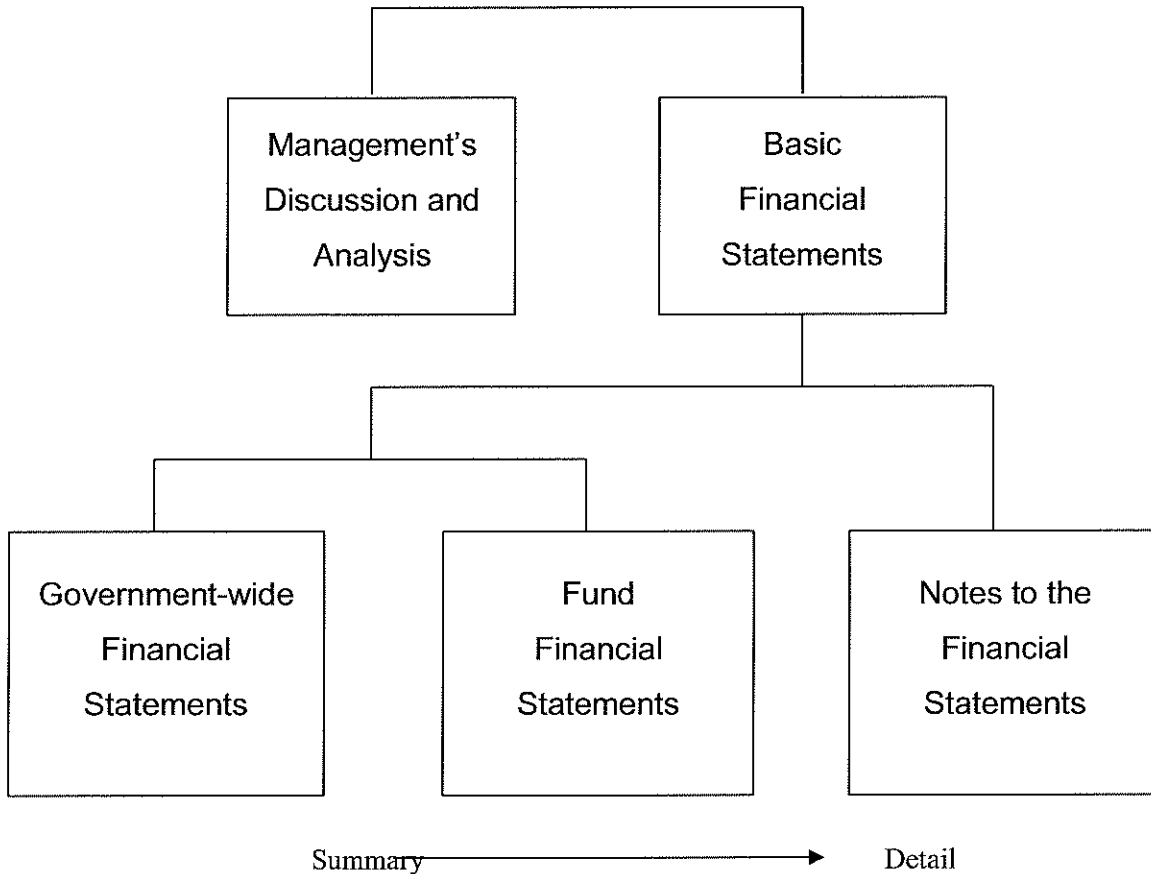
- The assets of the Town of Atlantic Beach exceeded its liabilities at the close of the fiscal year by \$9,734,464 (*net assets*).
- The government's total net assets increased by \$419,869 due to increases in both the governmental and business type activities net assets.
- As of the close of the current fiscal year, the Town of Atlantic Beach governmental funds reported combined ending fund balances of \$3,002,568 an increase of \$354,834 in comparison with the prior year. Approximately 81.00 percent of this total amount or \$2,432,163 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 \$2,132,461, or 71.02 percent of total general fund expenditures for the fiscal year.
- The Town of Atlantic Beach total debt decreased by \$198,523 during the current fiscal year.
- The Town of Atlantic Beach 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 Town of Atlantic Beach 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 Atlantic Beach.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds.

Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Atlantic Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Atlantic Beach can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. 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 of Atlantic Beach adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. 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 – Town of Atlantic Beach 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. Town of Atlantic Beach 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 of Atlantic Beach. The other schedules can be found beginning on page 49 of this report.

Government-Wide Financial Analysis

Town of Atlantic Beach Net Assets

Figure 2

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 3,256,256	\$ 2,859,507	\$ 2,166,894	\$ 1,897,403	\$ 5,423,150	\$ 4,756,910
Capital assets	1,791,547	1,937,465	3,970,229	4,197,223	5,761,776	6,134,688
Total assets	5,047,803	4,796,972	6,137,123	6,094,626	11,184,926	10,891,598
Long-term liabilities outstanding	842,571	924,722	317,484	407,042	1,160,055	1,331,764
Other liabilities	242,083	200,580	45,297	44,659	287,380	245,239
Total liabilities	1,084,654	1,125,302	362,781	451,701	1,447,435	1,577,003
Net assets:						
Invested in capital assets, net of related debt	1,057,558	1,132,608	3,670,084	3,897,078	4,727,642	5,029,686
Restricted						
Unrestricted	2,902,564	2,539,062	2,104,258	1,745,847	5,006,822	4,284,909
Total net assets	\$ 3,960,122	\$ 3,671,670	\$ 5,774,342	\$ 5,642,925	\$ 9,734,464	\$ 9,314,593

Management Discussion and Analysis
Town of Atlantic Beach

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Atlantic Beach exceeded liabilities by \$9,764,304 as of June 30, 2005. The Town's net assets increased by \$449,709 for the fiscal year ended June 30, 2005. This increase in net assets is composed of the following: (1) a decrease of \$275,231 in 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 and (2) an increase in unrestricted net assets of \$721,913. The Town of Atlantic Beach uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Atlantic Beach 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 99.70%, which is comparable to the statewide average of 96.70%.

Town of Atlantic Beach - Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 886,230	\$ 770,022	\$ 996,118	\$ 928,482	\$ 1,882,348	\$ 1,698,504
Operating grants and contributions	105,807	179,594	-	-	105,807	179,594
General revenues:						
Property taxes	2,004,824	1,949,565	-	-	2,004,824	1,949,565
Other taxes	896,439	860,920	-	-	896,439	860,920
Grants and contributions not restricted to specific programs	372,931	257,340	-	-	372,931	257,340
Other	52,261	80,815	44,887	49,718	97,148	130,533
Total Revenues	4,318,492	4,098,256	1,041,005	978,200	5,359,497	5,076,456
Expenses:						
General Government	584,307	625,401	-	-	584,307	625,401
Public safety	2,368,447	2,410,147	-	-	2,368,447	2,410,147
Transportation	9,238	7,131	-	-	9,238	7,131
Public Works	1,160,722	1,081,454	-	-	1,160,722	1,081,454
Interest on Long-Term Debt	32,326	14,979	-	-	32,326	14,979
Water	-	-	784,588	804,941	784,588	804,941
Total Expenses	4,155,040	4,139,112	784,588	804,941	4,939,628	4,944,053
Increase (decrease) in net assets						
before transfers	163,452	(40,856)	256,417	173,259	419,869	132,403
Transfers	125,000	125,000	(125,000)	(125,000)	-	-
Increase (decrease) in net assets after transfers	288,452	84,144	131,417	48,259	419,869	132,403
Net assets, July 1	3,671,670	3,587,526	5,642,925	5,594,666	9,314,595	9,182,192
Net assets, June 30	\$ 3,960,122	\$ 3,671,670	\$ 5,774,342	\$ 5,642,925	\$ 9,734,464	\$ 9,314,595

Governmental activities. Governmental activities increased the Town's net assets by \$318,292, thereby accounting for 70.78% of the total growth in the net assets of the Town of Atlantic Beach.

Business-type activities. Business-type activities increased the Town of Atlantic Beach net assets by \$131,417, accounting for 29.22% of the total increase in the government's net assets.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Atlantic Beach governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Atlantic Beach 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 of Atlantic Beach. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$2,132,461 while total fund balance reached \$2,702,866. 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 51.91 percent of total General Fund expenditures, while total fund balance represents 65.79 percent of that same amount.

At June 30, 2005, the governmental funds of Town of Atlantic Beach reported a combined fund balance of \$3,002,568, a 13.40 percent increase 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 of Atlantic Beach' proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,104,258. The total change in net assets for the proprietary funds was \$131,417.

Capital Asset and Debt Administration

Capital assets. The Town of Atlantic Beach' investment in capital assets for its governmental and business-type activities as of June 30, 2005, totals \$5,761,776 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles. No significant additions or deletions of equipment occurred during the year.

Town of Atlantic Beach' Capital Assets (Net of Depreciation)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 962,967	\$ 962,967	\$ 934,400	\$ 934,400	\$ 1,897,367	\$ 1,897,367
Buildings and system	146,298	151,201	2,966,575	3,168,966	3,112,873	3,320,167
Machinery and equipment	73,469	84,172	54,608	70,170	128,077	154,342
Vehicles and motorized equipment	608,813	739,125	14,646	23,687	623,459	762,812
Total	\$ 1,791,547	\$ 1,937,465	\$ 3,970,229	\$ 4,197,223	\$ 5,761,776	\$ 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, 2005, the Town of Atlantic Beach had total debt outstanding of \$1,007,321. Of this, \$300,145 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	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ -	\$ -	\$ 300,145	\$ 389,345	\$ 300,145	\$ 389,345
Total	\$ -	\$ -	\$ 300,145	\$ 389,345	\$ 300,145	\$ 389,345

The Town of Atlantic Beach total debt decreased by \$198,522 (14.03 %) during the current fiscal year.

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 of Atlantic Beach is \$69,525,247.28.

Additional information regarding the Town of Atlantic Beach's long-term debt can be found in note III.B.5 beginning on page 44 of this report.

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 of Atlantic Beach is too small to be statistically categorized in unemployment figures. However, Carteret County as a whole has an unemployment rate of 4.0 % is below the State average of 5.0 %.
- The Town of Atlantic Beach 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, 2006

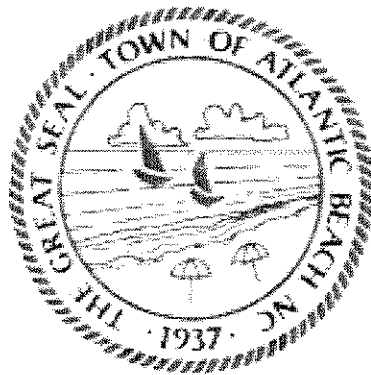
The Town of Atlantic Beach budget for the Fiscal Year Ending June 30, 2006 totals \$7,895,628 for all funds managed by the Town. As required by North Carolina General Statutes, the budget is balanced by a like amount of revenues and expenditures.

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 \$869,065,591 tax base. This comprises 40.48 % of General Fund estimated revenues. Fund Balance from the Town's General Fund was appropriated as a revenue source in the amount of \$475,961. The Town did budget several needed capital expenditures for this budget year in the 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.

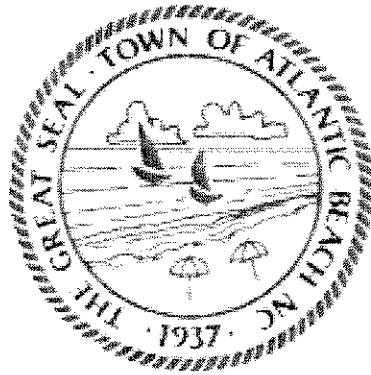
Requests for Information

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, P.O. Box 10, 125 West Fort Macon Road, Atlantic Beach, NC 28512.



This Page Intentionally Left Blank

BASIC FINANCIAL STATEMENTS



This Page Intentionally Left Blank

Town of Atlantic Beach, North Carolina
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,951,262	\$ 2,004,165	\$ 4,955,427
Taxes receivables (net)	17,343	-	17,343
Accounts receivable (net)	39,877	137,810	177,687
Due from other governments	247,774	-	247,774
Inventories	-	24,919	24,919
Total current assets	<u>3,256,256</u>	<u>2,166,894</u>	<u>5,423,150</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	828,580	3,035,829	3,864,409
Total capital assets	<u>1,791,547</u>	<u>3,970,229</u>	<u>5,761,776</u>
Total assets	<u>\$ 5,047,803</u>	<u>\$ 6,137,123</u>	<u>\$ 11,184,926</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 232,611	\$ 21,630	\$ 254,241
Unearned revenue	3,734	-	3,734
Accrued interest payable	8,765	-	8,765
Customer deposits	-	15,667	15,667
Customer advances	-	8,000	8,000
Payable from restricted assets	-	-	-
Long-term liabilities:			
Due within one year	373,781	99,111	472,892
Due in more than one year	468,790	218,373	687,163
Total liabilities	<u>1,087,681</u>	<u>362,781</u>	<u>1,450,462</u>
NET ASSETS			
Invested in capital assets, net of related deb	1,057,558	3,670,084	4,727,642
Unrestricted	2,902,564	2,104,258	5,006,822
Total net assets	<u>\$ 3,960,122</u>	<u>\$ 5,774,342</u>	<u>\$ 9,734,464</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, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 584,307	\$ -	\$ -	\$ -
Public safety	2,368,447	388,178	19,621	-
Transportation	9,238	-	70,672	-
Public Works	1,160,722	498,052	15,514	-
Interest on long-term debt	32,326	-	-	-
Total governmental activities (See Note 1)	<u>4,155,040</u>	<u>886,230</u>	<u>105,807</u>	<u>-</u>
Business-type activities:				
Water	784,588	996,118	-	-
Total business-type activities	<u>784,588</u>	<u>996,118</u>	<u>-</u>	<u>-</u>
Total primary government	<u><u>\$ 4,939,628</u></u>	<u><u>\$ 1,882,348</u></u>	<u><u>\$ 105,807</u></u>	<u><u>\$ -</u></u>

(continued)

General revenues:

Taxes:

- Property taxes, levied for general purpose
- Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Transfers

Total general revenues, special items, and transfers

Change in net assets

Net assets, beginning

Net assets, ending

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

Governmental Activities	Business-type Activities	Total
\$ (584,307)	\$ -	\$ (584,307)
(1,960,648)	-	(1,960,648)
61,434	-	61,434
(647,156)	-	(647,156)
(32,326)	-	(32,326)
<u>(3,163,003)</u>	<u>-</u>	<u>(3,163,003)</u>
-	211,530	211,530
-	211,530	211,530
<u>(3,163,003)</u>	<u>211,530</u>	<u>(2,951,473)</u>
2,004,824	-	2,004,824
896,439	-	896,439
372,931	-	372,931
52,261	44,887	97,148
125,000	(125,000)	-
<u>3,451,455</u>	<u>(80,113)</u>	<u>3,371,342</u>
288,452	131,417	419,869
3,671,670	5,642,925	9,314,595
<u>\$ 3,960,122</u>	<u>\$ 5,774,342</u>	<u>\$ 9,734,464</u>

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

Town of Atlantic Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2005

	Major General Fund	Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,651,560	\$ 299,702	\$ 2,951,262
Receivables, net:			
Taxes	17,343	-	17,343
Accounts	39,877	-	39,877
Due from other governments	247,774	-	247,774
Total assets	<u>\$ 2,956,554</u>	<u>\$ 299,702</u>	<u>\$ 3,256,256</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 232,611	\$ -	\$ 232,611
Deferred/Unearned revenue	21,076	-	21,076
Total liabilities	<u>253,687</u>	<u>-</u>	<u>253,687</u>

(continued)

Town of Atlantic Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2005

	Major General Fund	Non-Major Funds	Total Governmental Funds
Fund balances:			
Reserved for:			
State statute	283,918	-	283,918
Streets Powell bill	286,487	-	286,487
Unreserved, General Fund	2,132,462	-	2,132,462
Unreserved, reported in:			
Special Revenue Funds	-	299,702	299,702
Total fund balances	<u>2,702,867</u>	<u>299,702</u>	<u>3,002,569</u>
Total liabilities and fund balances	<u>\$ 2,956,554</u>	<u>\$ 299,702</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the	1,791,547
Liabilities for earned but deferred revenues in fund statements.	17,343
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).	<u>(851,337)</u>
Net assets of governmental activities	<u>\$ 3,960,122</u>

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, 2005

	Major General Fund	Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 2,002,632	\$ -	\$ 2,002,632
Other taxes and licenses	896,439	-	896,439
Unrestricted intergovernmental	372,931	-	372,931
Restricted intergovernmental	136,446	-	136,446
Permits and fees	276,179	-	276,179
Sales and services	544,253	-	544,253
Investment earnings	48,042	4,244	52,286
Miscellaneous	35,135	-	35,135
Total revenues	4,312,057	4,244	4,316,301
EXPENDITURES			
Current:			
General government	543,186	-	543,186
Public safety	2,248,759	-	2,248,759
Transportation	9,238	-	9,238
Public works	1,154,989	-	1,154,989
Capital outlay	-	2,167	2,167
Debt service:			
Principal	121,716	-	121,716
Interest and other charges	30,445	-	30,445
Total expenditures	4,108,333	2,167	4,110,500
Revenue and other financing sources over (under) expenditures and other financing sources	203,724	2,077	205,801
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	125,000	100,000	225,000
Transfers to other funds	(100,000)	-	(100,000)
Issuance of debt	24,034	-	24,034
Total other financing sources (uses)	49,034	100,000	149,034
Net change in fund balance	252,758	102,077	354,835
Fund balance, beginning	2,450,109	197,625	2,647,734
Fund balance, ending	\$ 2,702,867	\$ 299,702	\$ 3,002,569

(continued)

Town of Atlantic Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2005

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

Net changes in fund balances - total governmental funds	\$ 354,835
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.	(144,911)
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	(1,744)
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.	97,682
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	11,283
Accrued interest payable	(1,880)
Net pension obligation	<u>(26,813)</u>
Total changes in net assets of governmental activities	<u>\$ 288,452</u>

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, 2005

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
REVENUES:				
Ad valorem taxes	\$ 1,969,570	\$ 1,969,570	\$ 2,002,632	\$ 33,062
Other taxes and licenses	811,000	811,000	896,439	85,439
Unrestricted intergovernmental	331,500	331,500	372,931	41,431
Restricted intergovernmental	293,366	293,366	136,446	(156,920)
Permits and fees	260,610	260,610	276,179	15,569
Sales and services	493,200	493,200	544,253	51,053
Investment earnings	22,015	22,015	48,042	26,027
Miscellaneous	206	65,177	35,135	(30,042)
Total revenues	<u>4,181,467</u>	<u>4,246,438</u>	<u>4,312,057</u>	<u>65,619</u>
EXPENDITURES:				
Current:				
General government	618,908	612,528	543,186	69,342
Public safety	2,233,445	2,319,525	2,248,759	70,766
Transportation	11,000	11,000	9,238	1,762
Public Works	1,431,450	1,451,625	1,154,989	296,636
Debt service:				
Principal retirement	121,716	121,716	121,716	-
Interest and other charges	30,659	30,659	30,445	214
Total expenditures	<u>4,447,178</u>	<u>4,547,053</u>	<u>4,108,333</u>	<u>438,720</u>
Revenues over (under) expenditures	<u>(265,711)</u>	<u>(300,615)</u>	<u>203,724</u>	<u>504,339</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	-	24,034	24,034	-
Fund balance appropriated	240,711	251,581	-	(251,581)
Total other financing sources (uses)	<u>265,711</u>	<u>300,615</u>	<u>49,034</u>	<u>(251,581)</u>
Revenues and other financing sources over (under) expenditures and other financing use	<u>\$ -</u>	<u>\$ -</u>	<u>252,758</u>	<u>\$ 252,758</u>
Fund balances, beginning			<u>2,450,109</u>	
Fund balances, ending			<u>\$ 2,702,867</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, 2005

	Water Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,004,165
Accounts receivable (net) - billed	71,095
Accounts receivable (net) - unbilled	66,715
Inventories	24,919
Total current assets	2,166,894
Non-current assets:	
Capital assets:	
Capital assets, net of depreciation	3,970,229
Total assets	6,137,123
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	21,630
Customer advances on water bills	8,000
Customer deposits	15,667
Current portion of long-term debt	99,111
Total current liabilities	144,408
Noncurrent liabilities:	
Noncurrent portion of long-term debt	218,373
Total liabilities	362,781
NET ASSETS	
Invested in capital assets, net of related debt	3,670,084
Unrestricted	2,104,258
Total net assets	\$ 5,774,342

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, 2005

	Water Fund
OPERATING REVENUES	
Charges for services	\$ 798,272
Water and sewer tap	165,100
Miscellaneous	32,746
Total operating revenues	996,118
OPERATING EXPENSES	
Administration	240,582
Water treatment and distribution	293,797
Depreciation	226,994
Total operating expenses	761,373
Operating income	234,745
NONOPERATING REVENUES (EXPENSES)	
Investment income	44,887
Interest expenses	(23,215)
Total nonoperating revenue (expenses)	21,672
Income before contributions and transfers	256,417
Transfers to other funds	(125,000)
Change in net assets	131,417
Total net assets, beginning	5,642,925
Total net assets, ending	\$ 5,774,342

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, 2005

	Water Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,011,489
Cash paid to employees	(183,741)
Cash paid for services	(352,313)
Net cash provided by operating activities	475,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(125,000)
Net cash flows (used) by noncapital financing activities	(125,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bond maturities and equipment contracts	(89,200)
Interest paid on bond maturities and equipment contracts	(23,215)
Net cash provided (used) by capital and related financing activities	(112,415)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	44,887
Net increase in cash and cash equivalents	282,907
Balances, beginning	1,721,258
Balances, ending	\$ 2,004,165

(continued)

Town of Atlantic Beach, North Carolina
Statement of Cash Flows
Proprietary Fund - Water Fund
For the Year Ended June 30, 2005

	Water Fund
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 234,745
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	226,994
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	15,371
(Increase) decrease in inventory	(1,956)
Increase (decrease) in accounts payable and accrued liabilities	2,867
Increase in customer advances on water bills	(3,671)
Increase in customer deposits	1,443
Increase (decrease) in accrued vacation pay	(358)
Total adjustments	240,690
Net cash provided by operating activities	\$ 475,435

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