

## Management Discussion and Analysis Town of Atlantic Beach

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, 2007. 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**

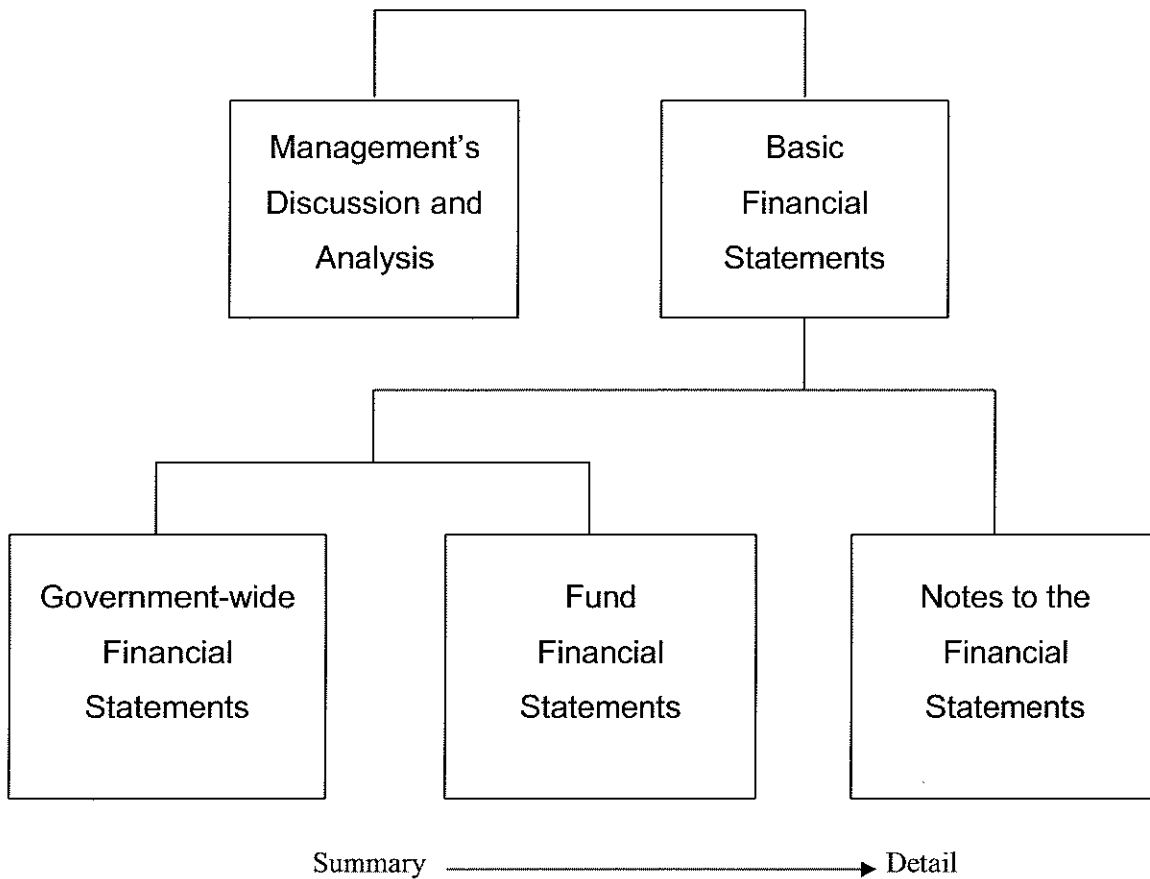
- The assets of the Town of Atlantic Beach exceeded its liabilities at the close of the fiscal year by \$11,780,978 (net assets).
- The government's total net assets increased by \$541,066 due to an increase in the governmental activities net assets.
- As of the close of the current fiscal year, the Town of Atlantic Beach governmental funds reported combined ending fund balances of \$3,802,399. Approximately 27.66 percent of this total amount or \$1,051,799 is available for spending at the government's discretion (unreserved fund balance) in the general fund. Unreserved fund balance in the special revenue funds total \$1,612,072.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,051,799, or 14.19 percent of total general fund expenditures for the fiscal year.
- The Town of Atlantic-Beach total debt decreased by \$420,490 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 section is 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

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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		Business Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 4,130,065	\$ 4,774,390	\$ 2,490,729	\$ 2,495,630	\$ 6,620,794	\$ 7,270,020
Capital assets	6,404,612	5,193,603	3,599,591	3,770,752	10,004,203	8,964,355
Total assets	10,534,677	9,967,993	6,090,320	6,266,382	16,624,997	16,234,375
Current liabilities	700,510	190,208	176,842	36,707	877,352	226,915
Long-term liabilities	3,931,707	4,554,201	34,960	213,347	3,966,667	4,767,548
Total liabilities	4,632,217	4,744,409	211,802	250,054	4,844,019	4,994,463
Net assets:						
Invested in capital assets, net of related debt	2,335,942	766,911	3,484,342	3,557,405	5,820,284	4,324,316
Restricted	266,799				266,799	
Unrestricted	3,299,719	4,456,673	2,394,176	2,458,923	5,693,895	6,915,596
Total net assets	\$ 5,902,460	\$ 5,223,584	\$ 5,878,518	\$ 6,016,328	\$ 11,780,978	\$ 11,239,912

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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 \$11,780,978 as of June 30, 2007. The Town's net assets increased by \$541,066 for the fiscal year ended June 30, 2007. This increase in net assets is composed of the following: (1) an increase of \$1,495,968 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, (2) a decrease in unrestricted net assets of \$1,221,701, (3) an increase in restricted net assets of \$266,799. 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 accomplishing a tax collection percentage of 99.54%, 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	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 954,316	\$ 906,289	\$ 967,400	\$ 1,018,458	\$ 1,921,716	\$ 1,924,747
Operating grants & contributions	455,467	518,975	-	-	455,467	518,975
Capital grants & contributions	265,393	371,476	-	-	265,393	371,476
General revenues:						
Property taxes	2,372,676	2,040,535	-	-	2,372,676	2,040,535
Other taxes	923,986	965,030	-	-	923,986	965,030
Grants and contributions not restricted to specific programs						
	445,100	354,813	-	-	445,100	354,813
Gain (loss) on disposal of assets	-	1,029,328	-	(968)	-	1,028,360
Other	919,980	166,560	123,203	94,996	1,043,183	261,556
<b>Total revenues</b>	<b>6,336,918</b>	<b>6,353,006</b>	<b>1,090,603</b>	<b>1,112,486</b>	<b>7,427,521</b>	<b>7,465,492</b>
<b>Expenses:</b>						
General government	664,737	506,848	-	-	664,737	506,848
Public safety	2,840,052	2,581,637	-	-	2,840,052	2,581,637
Transportation	200,212	14,008	-	-	200,212	14,008
Public works	1,499,528	1,443,899	-	-	1,499,528	1,443,899
Public service	506,782	630,957	-	-	506,782	630,957
Interest on long-term debt	191,533	80,197	-	-	191,533	80,197
Water	-	-	884,080	702,499	884,080	702,499
<b>Total expenses</b>	<b>5,902,844</b>	<b>5,257,546</b>	<b>884,080</b>	<b>702,499</b>	<b>6,786,924</b>	<b>5,960,045</b>
increase (decrease) in net assets						
before transfers	434,074	1,095,460	206,523	409,987	640,597	1,505,447
Transfers	344,333	168,000	(344,333)	(168,000)	-	-
Increase (decrease) in net assets after transfers						
	778,407	1,263,460	(137,310)	241,987	640,597	1,505,447
Prior period adjustment	(99,531)	-	-	-	(99,531)	-
Net assets, July 1	5,223,584	3,960,124	6,016,328	5,774,341	11,239,912	9,734,465
<b>Net assets, June 30</b>	<b>\$ 5,902,460</b>	<b>\$ 5,223,584</b>	<b>\$ 5,878,518</b>	<b>\$ 6,016,328</b>	<b>\$ 11,780,978</b>	<b>\$ 11,239,912</b>

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**Governmental activities.** Governmental activities increased the Town's net assets by \$678,876 thereby accounting for 125.47% of the total growth in the net assets of the Town of Atlantic Beach.

**Business-type activities.** Business-type activities decreased the Town of Atlantic Beach net assets by \$137,810. The decrease was due to transfers of \$344,333 to governmental funds.

### **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 \$1,051,799 while total fund balance reached \$2,190,327. 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 14.19 percent of total General Fund expenditures, while total fund balance represents 29.55 percent of that same amount.

At June 30, 2007, the governmental funds of Town of Atlantic Beach reported a combined fund balance of \$3,802,399, a decrease of \$728,562 from last year. Total fund balance for all governmental funds represents 51.29 percent of total Governmental Funds expenditures. The significant decrease in fund balance was due to the increase in capital assets such as the purchase of an ocean front lot for a future beach access.

**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 budget amendments were made to the original budget during the year.

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**Proprietary Funds.** The Town of Atlantic Beach'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 \$2,394,176. The total change in net assets for the Water Fund was a decrease of \$137,810.

**Capital Asset and Debt Administration**

**Capital assets.** The Town of Atlantic Beach's investment in capital assets for its governmental and business-type activities as of June 30, 2007, totals \$10,004,203 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles. For the year ending June 30, 2007, major purchases include the purchase of one ocean-front lot, the donation of two ocean-front lots and the completion of the West Fort Macon Road Sidewalk Project.

**Town of Atlantic Beach - Capital Assets  
(Net of Depreciation)**

**Figure 4**

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 5,222,967	\$ 4,275,811	\$ 934,400	\$ 934,400	\$ 6,157,367	\$ 5,210,211
Buildings & plant system	166,106	172,247	2,576,160	2,763,418	2,742,266	2,935,665
Infrastructure	292,063	-	-	-	292,063	-
Equipment	129,565	116,739	71,744	63,516	201,309	180,255
Vehicles & motorized equipment	593,911	628,806	17,287	9,418	611,198	638,224
Total	\$ 6,404,612	\$ 5,193,603	\$ 3,599,591	\$ 3,770,752	\$ 10,004,203	\$ 8,964,355

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, 2007, the Town of Atlantic Beach had total debt outstanding of \$4,170,516. Of this, \$101,845 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	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ -	\$ -	\$101,845	\$204,545	\$101,845	\$204,545
Total	\$ -	\$ -	\$101,845	\$204,545	\$101,845	\$204,545

The Town of Atlantic Beach total debt decreased by \$420,490 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 \$73,079,576.

Additional information regarding the Town of Atlantic Beach's long-term debt can be found in note III.B.6 beginning on page 45 of this report.

**Current Year Activities**

During the year ending June 30, 2007, the Town of Atlantic Beach completed a sidewalk project, a major dredging project, and acquired three ocean-front lots for a future beach access project. The current budget included major increases in salary due to the approval of the board to include the results from a salary study prepared by the MAPS Group. The last study was done in 1996.

**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 3.9% which is below the State average of 4.8 %.
- 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, 2008**

The Town of Atlantic Beach budget for the Fiscal Year Ending June 30, 2008 totals \$8,110,472 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. Budgeted capital assets include a rescue truck, four patrol vehicles, the first year of water meter replacements, two public service vehicles, and a backhoe.

**Governmental Activities.** The Town's largest single source of revenue continues to be generated from ad valorem property taxes, which is \$0.15 per \$100 valuation tax rate on a \$2,248,633,850 tax base. This comprises 53.54 % of General Fund estimated revenues. Fund Balance from the Town's General Fund was appropriated as a revenue surplus in the amount of \$445,230. 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 increases in revenues and expenditures to reflect the activities resulting from a sewer and storm water master planning project.

### **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 Marc Schulze, Interim Town Manager, P.O. Box 10, 125 West Fort Macon Road, Atlantic Beach, NC 28512.