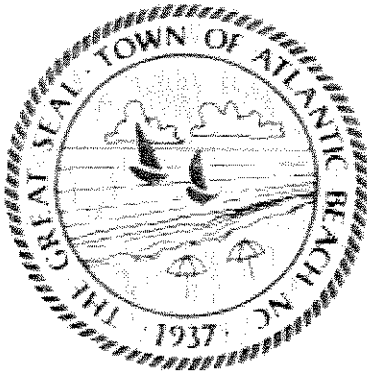


Financial Section

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



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CERTIFIED PUBLIC ACCOUNTANTS
4024 Oleander Drive Suite 2
Wilmington, North Carolina 28403
Telephone (910) 799-4872 Fax (910) 395-4872

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental and 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, 2008, which collectively comprises 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's 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 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 and business-type activities, each major fund and the aggregate remaining fund information of the Town of Atlantic Beach, North Carolina as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the 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 and the individual fund financial schedules 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 the 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 introductory information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Thompson Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A.
October 20, 2008

TOWN OF ATLANTIC BEACH
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, 2008. 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 \$12,698,865 (net assets).
- The government's total net assets increased by \$917,887 due to an increase in the governmental activities net assets.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4,854,970. Approximately 79.33 percent of this total amount or \$3,851,623 is available for spending at the government's discretion (unreserved fund balance) in the general fund. Unreserved fund balance in the special revenue fund totals \$355,325.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$3,851,623, or 67.17 percent of total general fund expenditures for the fiscal year.
- The government's total debt decreased by \$1,159 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.

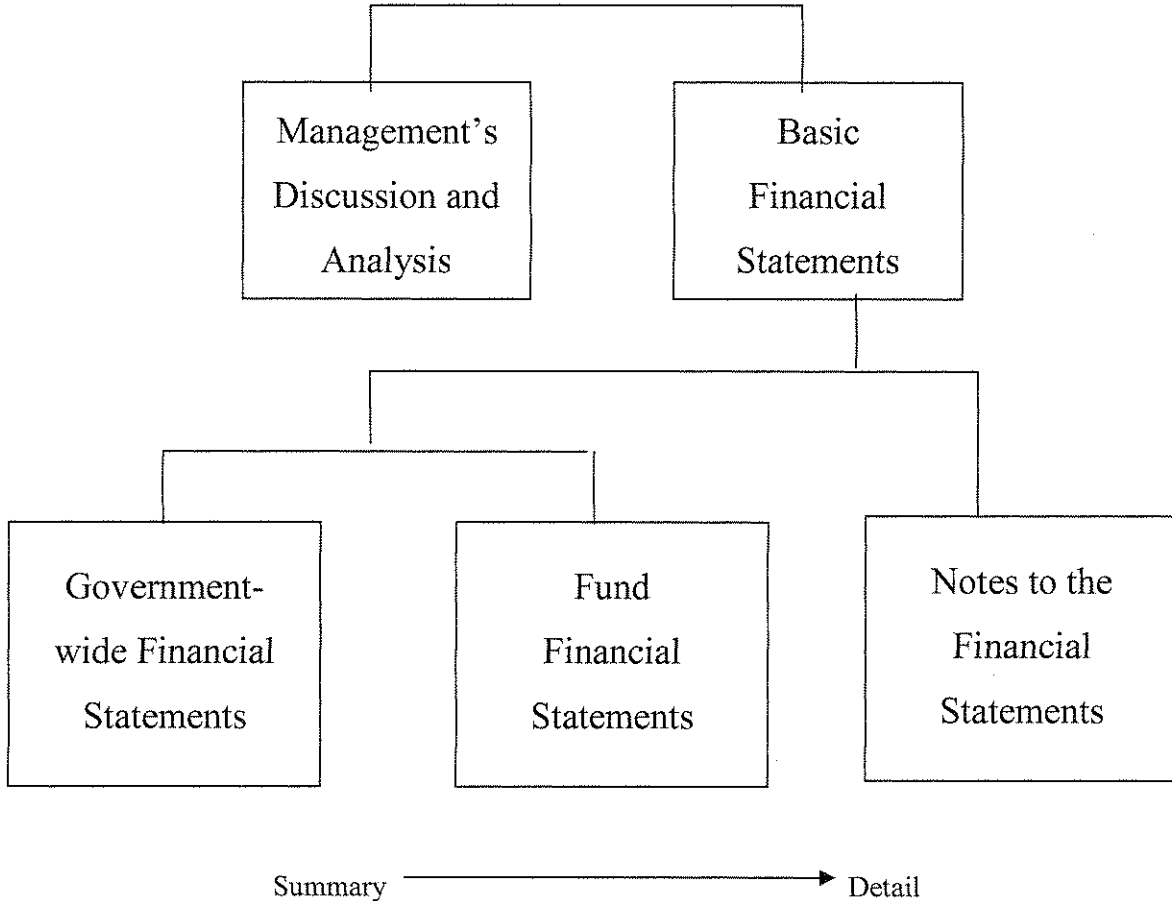
Overview of the Financial Statements

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.

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

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 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.

TOWN OF ATLANTIC BEACH

Management's Discussion and Analysis

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 more or less financial resources available to finance the Town's programs. The relationship between 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.

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

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			
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 5,136,392	\$ 4,130,065	\$ 2,117,873	\$ 2,490,729	\$ 7,254,265	\$ 6,620,794
Capital assets	6,667,894	6,404,612	3,534,459	3,599,591	10,202,353	10,004,203
Total assets	11,804,286	10,534,677	5,652,332	6,090,320	17,456,618	16,624,997
Current liabilities	673,250	700,510	91,524	176,842	764,774	877,352
Long-term liabilities	3,981,301	3,931,707	11,678	34,960	3,992,979	3,966,667
Total liabilities	4,654,551	4,632,217	103,202	211,802	4,757,753	4,844,019
Net assets:						
Invested in capital assets, net of related debt	2,570,315	2,335,942	2,575,059	3,484,342	5,145,374	5,820,284
Restricted	307,546	266,799	-	-	307,546	266,799
Unrestricted	4,271,874	3,299,719	2,974,071	2,394,176	7,245,945	5,693,895
Total net assets	\$ 7,149,735	\$ 5,902,460	\$ 5,549,130	\$ 5,878,518	\$ 12,698,865	\$ 11,780,978

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 \$12,698,865 as of June 30, 2008. The Town's net assets increased by \$917,887 for the fiscal year ended June 30, 2008. This increase in net assets is composed of the following: (1) a decrease of \$674,910 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) an increase in unrestricted net assets of

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

\$1,552,050, (3) an increase in restricted net assets of \$40,747. 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 99.58%. In the Business Type Activities, the current financial statements correctly show "land" as a non-depreciable asset valued at \$934,400, and previously it was not separated out.

Town of Atlantic Beach - Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 893,227	\$ 954,316	\$ 967,728	\$ 967,400	\$ 1,860,955	\$ 1,921,716
Operating grants & contributions	122,820	455,467	-	-	122,820	455,467
Capital grants & contributions	-	265,393	-	-	-	265,393
General revenues:						
Property taxes	3,393,084	2,372,676	-	-	3,393,084	2,372,676
Other taxes	17,534	18,779	-	-	17,534	18,779
Unrestricted intergovernmental revenues:						
Local option sales tax	993,403	905,207	-	-	993,403	905,207
Carteret County ABC revenue	64,874	71,030	-	-	64,874	71,030
Utilities franchise tax	181,411	176,341	-	-	181,411	176,341
Cable vision franchise tax	120,394	111,049	-	-	120,394	111,049
Telecommunications sales tax	48,688	43,061	-	-	48,688	43,061
Other intergovernmental revenues	12,846	43,619	-	-	12,846	43,619
Gain (loss) on disposal of assets	-	-	-	-	-	-
Other	239,093	919,980	96,083	123,203	335,176	1,043,183
Total revenues	6,087,374	6,336,918	1,063,811	1,090,603	7,151,185	7,427,521
Expenses:						
General government	1,200,796	664,737	-	-	1,200,796	664,737
Public safety	2,803,457	2,840,052	-	-	2,803,457	2,840,052
Transportation	437,038	706,994	-	-	437,038	706,994
Economic & Physical Development	152,834	-	-	-	152,834	-
Environmental Protection	416,381	1,499,528	-	-	416,381	1,499,528
Interest on long-term debt	179,920	191,533	-	-	179,920	191,533
Water	-	-	1,043,074	884,080	1,043,074	884,080
Total expenses	5,190,426	5,902,844	1,043,074	884,080	6,233,500	6,786,924
Increase (decrease) in net assets						
before transfers	896,948	434,074	20,737	206,523	917,685	640,597
Transfers	350,125	344,333	(350,125)	(344,333)	-	-
Increase (decrease) in net assets after transfers						
	1,247,073	778,407	(329,388)	(137,810)	917,685	640,597
Prior period adjustment	-	(99,531)	-	-	-	(99,531)
Net assets, July 1	5,902,662	5,223,584	5,878,518	6,016,328	11,781,180	11,239,912
Net assets, June 30	\$ 7,149,735	\$ 5,902,460	\$ 5,549,130	\$ 5,878,518	\$ 12,698,865	\$ 11,780,978

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

Governmental activities. Governmental activities increased the Town's net assets by \$1,247,275 thereby accounting for 135.89% of the total growth in the net assets of the Town of Atlantic Beach. The amount collected in property taxes increased over \$1,000,000, almost half of which was planned during the budget process to establish an acceptable unreserved fund balance to protect the Town against unforeseen economic expenditures, hurricanes, substantial decline in tourism and for tax rate stabilization purposes.

Business-type activities. Business-type activities decreased the Town of Atlantic Beach net assets by \$329,388. The decrease was due to transfers of \$350,125 to governmental funds for reimbursement of shared personnel costs (\$205,219) and debt service payment for Town-owned property purchased for future use by both funds (\$144,906).

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 \$3,851,623 while total fund balance reached \$4,499,645. 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 67.17 percent of total General Fund expenditures, while total fund balance represents 78.47 percent of that same amount.

At June 30, 2008, the governmental funds of Town of Atlantic Beach reported a combined fund balance of \$4,854,970, an increase of \$1,052,571 from last year. Total fund balance for all governmental funds represents 84.66 percent of total Governmental Funds expenditures.

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.

The final amended budget and actual amounts varied largely due to the economic trends in building construction and real estate development projects. The Town budgeted revenues for building permits and fees based on historical data. The market decline has caused a significant impact in the actual revenues collected.

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

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 \$2,974,071. The total change in net assets for the Water Fund was a decrease of \$329,388.

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, 2008, totals \$10,202,353 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles. For the year ending June 30, 2008, major purchases include a Fire/EMS rescue vehicle, eight vehicles, and a backhoe.

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

Figure 4

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 5,222,967	\$ 5,222,967	\$ 934,400	\$ 934,400	\$ 6,157,367	\$ 6,157,367
Buildings & plant system	159,965	166,106	2,390,799	2,576,160	2,550,764	2,742,266
Infrastructure	271,804	292,063			271,804	292,063
Equipment	116,480	129,565	143,305	71,744	259,785	201,309
Vehicles & motorized equipment	896,678	593,911	65,955	17,287	962,633	611,198
Total	\$ 6,667,894	\$ 6,404,612	\$ 3,534,459	\$ 3,599,591	\$ 10,202,353	\$ 10,004,203

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, 2008, the Town of Atlantic Beach had total debt outstanding of \$4,122,578. Of this, \$25,000 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
Management's Discussion and Analysis

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

	Governmental Activities		Business Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	-	-	\$25,000	\$101,845	\$25,000	\$101,845
Total	\$0	\$0	\$25,000	\$101,845	\$25,000	\$101,845

The Town of Atlantic Beach total debt decreased by \$47,936 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 \$178,805,130.

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.

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 4.6 % which is below the State average of 6.2 %.
- 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, 2009

The Town of Atlantic Beach budget for the Fiscal Year Ending June 30, 2009 totals \$7,222,376 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 expenditures for Capital Improvements are very limited and practically non-existent for the 2008-2009 fiscal year because of revenue shortfalls, economic conditions and the Town's attempt to conservatively balance the budget.

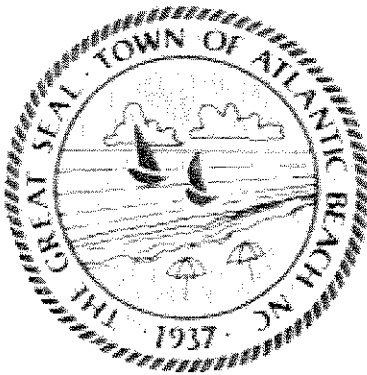
TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

Governmental Activities. The Town's largest single source of revenue continues to be generated from ad valorem property taxes, which is \$0.125 per \$100 valuation tax rate on a \$2,255,499,642 tax base. This comprises 50.05 % of General Fund estimated revenues.

Business - type Activities. The Town's business type activities which include the Town's water service, was budgeted with a 4% increase in water rates and a newly implemented \$2 per unit storm water fee.

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 Pete Allen, Town Manager, P.O. Box 10, 125 West Fort Macon Road, Atlantic Beach, NC 28512.



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