

Financial Section

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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 activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Atlantic Beach as of and for the year ended June 30, 2011, which collectively comprises the Town's basic financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinions.

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 aggregated remaining fund information of the Town of Atlantic Beach as of June 30, 2011 and the respective changes in financial position and cash flows, where appropriate, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011 on our consideration of the Town of Atlantic Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing. Not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 inquires 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 combining and individual fund financial statements, budgetary schedule and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, budgetary schedules and other schedules have 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.

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

Thompson, Price, Scott, Adams & Co., P.A.
October 19, 2011

TOWN OF ATLANTIC BEACH

Management's Discussion and Analysis

As management of the Town of Atlantic Beach (Town), we offer readers of the Town financial statements this narrative overview and analysis of the financial activities of the Town of Atlantic Beach for the fiscal year ended June 30, 2011. 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 \$14,053,925 (net assets).
- The government's total net assets increased by \$353,268 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 \$5,858,136. Approximately 84.7 percent of this total amount or \$4,961,504 is available for spending at the government's discretion (unassigned fund balance) in the general fund. Assigned fund balance in the special revenue fund totals \$336,902.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,961,504, or 85 percent of total general fund expenditures for the fiscal year.
- The government's total debt decreased by \$276,014 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.

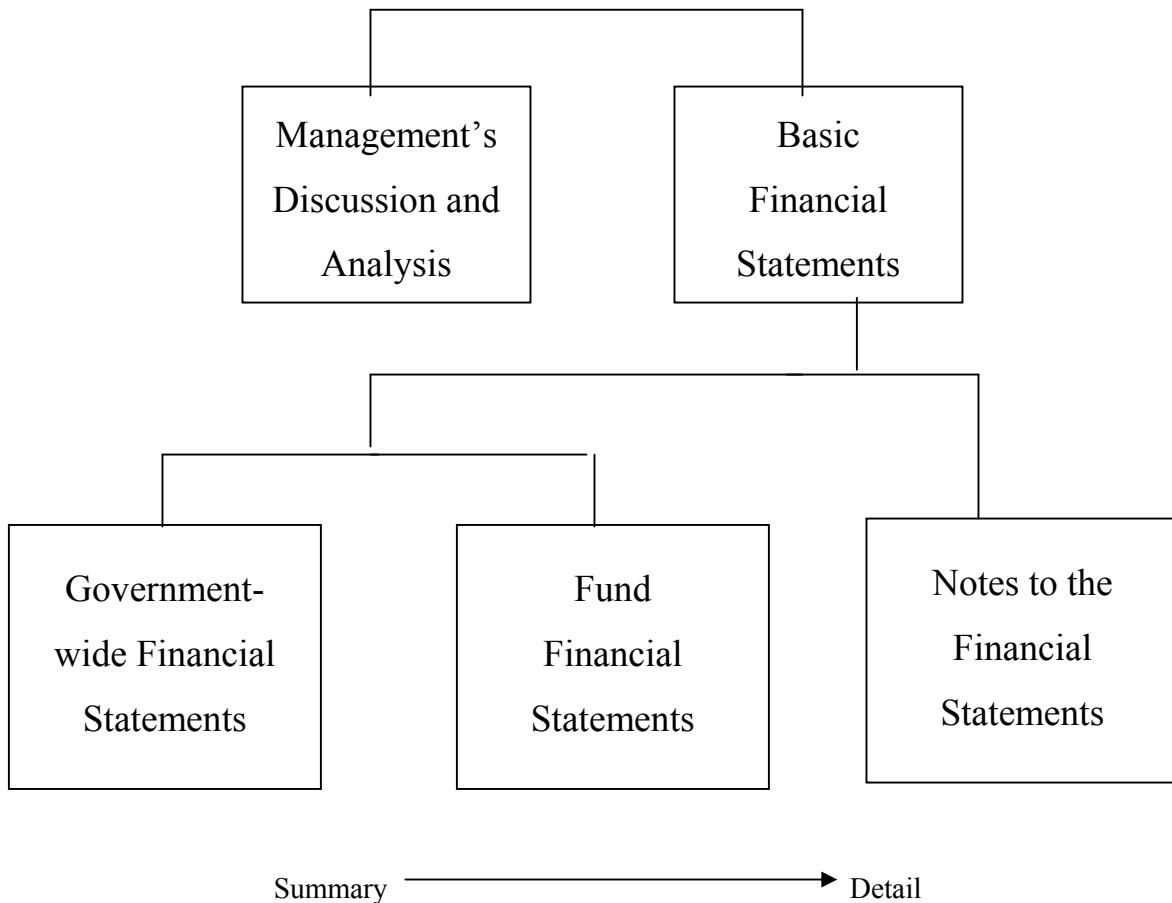
Overview of the Financial Statements

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 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.

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 and 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.

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 53 of this report.

Government-Wide Financial Analysis

Town of Atlantic Beach - Net Assets
Figure 2

	Governmental		Business Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Current and other assets	6,034,298	6,077,188	2,413,605	2,418,364	8,447,903	8,495,552
Capital assets	6,268,930	6,167,034	3,060,385	3,131,135	9,329,315	9,298,169
Total assets	12,303,228	12,244,222	5,473,990	5,549,499	17,777,218	17,793,721
Current liabilities	581,618	703,528	61,587	54,390	643,205	757,918
Long-term liabilities	3,062,539	3,320,626	17,549	14,520	3,080,088	3,335,146
Total liabilities	3,644,157	4,024,154	79,136	68,910	3,723,293	4,093,064
Net assets:						
Invested in capital assets, net of related debt	3,197,982	2,751,369	3,060,385	3,131,135	6,258,367	5,882,504
Restricted - Streets - Powell Bill	167,736	377,427	-	-	167,736	377,427
Restricted - Stabilization by State Statute	391,994	-	-	-	391,994	0
Unrestricted	4,901,359	5,091,272	2,334,469	2,349,454	7,235,828	7,440,726
Total net assets	8,659,071	8,220,068	5,394,854	5,480,589	14,053,925	13,700,657

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 \$14,053,925 as of June 30, 2011. The Town's net assets increased by \$353,268 for the fiscal year ended June 30, 2011. 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 makes up a large portion of the net assets of \$6,258,367. The Town uses these 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. A minor portion of the Town's net assets, \$559,730 represents resources that are subject to external

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

restrictions on how they may be used. The remaining balance of \$7,235,828 is unrestricted.

Several particular aspects of the Town's financial operations influenced the total unrestricted governmental net assets, notably, the continued diligence in the collection of property taxes by accomplishing a tax collection percentage of 99.56%.

Town of Atlantic Beach - Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	1,005,076	953,763	1,206,785	1,171,130	2,211,861	2,124,893
Operating grants & contributions	169,915	84,438	-	-	169,915	84,438
Capital grants & contributions	80,000	-	-	-	80,000	0
General revenues:						
Property taxes	2,870,414	2,874,994	-	-	2,870,414	2,874,994
Other taxes	20,699	20,270	-	-	20,699	20,270
Unrestricted intergovernmental revenues:						
Local option sales tax	829,358	841,881	-	-	829,358	841,881
Carteret County ABC revenue	102,922	53,702	-	-	102,922	53,702
Utilities franchise tax	208,444	204,847	-	-	208,444	204,847
Cable vision franchise tax	124,288	124,388	-	-	124,288	124,388
Telecommunications sales tax	48,468	51,022	-	-	48,468	51,022
Other intergovernmental revenues	12,139	6,978	-	-	12,139	6,978
Gain (loss) on disposal of assets	(138)	6,000	-	-	(138)	6,000
Other	29,298	64,259	0	0	29,298	64,259
Total revenues	5,500,883	5,286,542	1,206,785	1,171,130	6,707,668	6,457,672
Expenses:						
General government	1,168,657	1,215,910	-	-	1,168,657	1,215,910
Public safety	3,007,024	3,025,793	-	-	3,007,024	3,025,793
Transportation	624,524	425,540	-	-	624,524	425,540
Economic & Physical Development	90,149	79,807	-	-	90,149	79,807
Environmental Protection	319,445	419,622	-	-	319,445	419,622
Parks and Recreation	100,741	23,995	-	-	100,741	23,995
Interest on long-term debt	127,753	158,410	-	-	127,753	158,410
Water	-	-	927,113	891,990	927,113	891,990
Total expenses	5,438,293	5,349,077	927,113	891,990	6,365,406	6,241,067
Increase (decrease) in net assets						
before transfers	62,590	-62,535	290,678	359,877	353,268	297,342
Transfers	376,413	355,737	(376,413)	(355,737)	-	-
Increase (decrease) in net assets after transfers	439,003	293,202	(85,735)	4,140	353,268	297,342
Prior period adjustment	-	-	-	-	-	-
Net assets, July 1	8,220,068	7,926,866	5,480,589	5,476,449	13,700,657	13,403,315
Net assets, June 30	8,659,071	8,220,068	5,394,854	5,480,589	14,053,925	13,700,657

TOWN OF ATLANTIC BEACH **Management's Discussion and Analysis**

Governmental activities. Governmental activities increased the Town's net assets by \$439,003, thereby accounting for 124% of the total growth in the net assets of the Town of Atlantic Beach, as the net assets in the business-type activities decreased. This increase in the Town's net assets can be attributed to several factors. While local option sales tax revenues were lower than anticipated, this was offset with higher than expected ABC revenues, the Town's strong tax collection rate of 99.56% of stable tax values, and the foresight to acknowledge and plan for the continued economic downturn by freezing spending, salaries, and capital purchases except where necessary.

Business-type activities. Business-type activities decreased the Town of Atlantic Beach net assets by \$85,735. Water base usage fees and stormwater fees remained the same to avoid increases during a pressed economic environment. However, unanticipated costs to repair the aging water system, lack of replacing infrastructure due to the downturn in the economy and the addition of an administrative assistant yielded a decrease in net assets where last year the net assets increased by \$4,140.

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's financing requirements. Specifically, unassigned 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, unassigned fund balance of the General Fund was \$4,961,504 while total fund balance reached \$5,521,234. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures, which were \$5,838,475. Unassigned fund balance represents 85 percent of total General Fund expenditures, while total fund balance represents 94.57 percent of that same amount.

At June 30, 2011, the governmental funds of Town of Atlantic Beach reported a combined fund balance of \$5,858,136, an increase of \$47,125 from last year. Total fund balance for all governmental funds represents 100.34 percent of total Governmental Funds expenditures. Higher than anticipated revenues, strict oversight of personnel, operating and capital expenditures, in addition to implementing several large paving, sidewalk, and drainage projects using restricted Powell Bill funds, netted the \$47,125 increase.

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.

The final amended budget and actual amounts varied, largely due to the downward economic trends.

TOWN OF ATLANTIC BEACH

Management's Discussion and Analysis

The Town budgeted conservatively for State-collected revenues and building permits / impact fees based on trends in building construction and real estate development projects. As the State-wide and local economic trends have continued on a declining scale, the Town of Atlantic Beach received less of these revenues than expected. The most significant favorable variances were in ad valorem taxes, some elements of other unrestricted intergovernmental taxes, and sales/services due to a larger than normal Medicaid reimbursement. Total revenue realized was approximately \$154,000 more than the final budget amount. Expenditures were tightly controlled, and the Town was able to comply with its budgetary requirements in all categories. The favorable variances were the result of expenditure reductions in operations and capital outlay to the extent possible, while still providing for the replacement of two Police Department vehicles, replacement of an emergency repeater, a new sidewalk at the west-end, and a gravity-fed drainage project at the intersection of Greenville Avenue and Terminal Avenue on the east-end. Total expenditures were approximately \$195,000 less than budgeted. The Town netted \$45,780 in additional revenues over expenditures.

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 Utility Fund at the end of the fiscal year amounted to \$2,334,469. The total change in net assets for the Utility Fund was a decrease of \$85,735. While equipment and infrastructure capital improvement needs have been postponed in an attempt to keep the rates as low as possible, several capital projects were unavoidable at a cost of nearly \$150,000. Some of these projects were a water line tie-in project with Pine Knoll Shores, installing a fire hydrant to the Causeway as a shared cost when a new restaurant added a sprinkler system and needed the line expanded, emergency repairs to the submersible pump at Well #2, and several repairs to equipment in the water plant.

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, 2011, totals \$9,329,315 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, and vehicles. For the year ending June 30, 2011, most major capital outlay purchases were delayed due to economic uncertainty. Major purchases in the General Fund were two vehicle replacements in the Police Department, replacement of an emergency repeater, a new sidewalk at the west-end, and a gravity-fed drainage project at the intersection of Greenville Avenue and Terminal Avenue on the east-end. Major purchases in the Utility Fund were a water line tie-in project with Pine Knoll Shores, installing a fire hydrant to the Causeway as a shared cost when a new restaurant added a sprinkler system and needed the line expanded, emergency repairs to the submersible pump at Well #2, and several repairs to equipment in the water plant.

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

Town of Atlantic Beach - Capital Assets
(Net of Depreciation)
Figure 4

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	5,222,967	5,222,967	934,400	934,400	6,157,367	6,157,367
Buildings & plant system	161,840	170,581	2,010,157	2,049,165	2,171,997	2,219,746
Infrastructure	473,793	231,286	-	-	473,793	231,286
Equipment	98,404	73,970	80,586	99,558	178,990	173,528
Vehicles & motorized equipment	311,926	468,230	35,242	48,012	347,168	516,242
Total	6,268,930	6,167,034	3,060,385	3,131,135	9,329,315	9,298,169

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, 2011, the Town of Atlantic Beach had total debt outstanding of \$3,070,948. The entire amount of the Town's debt represents installment purchases for government activities, as we currently have no debt backed by the full faith and credit of the Town (bonded), or Utility (revenue bonds).

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

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	0	0	0	0	0	0
Total	0	0	0	0	0	0

The Town of Atlantic Beach total debt decreased by \$276,014 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 \$180,458,780.

Additional information regarding the Town of Atlantic Beach's long-term debt can be found in note III.B.6 beginning on page 48 of this report.

TOWN OF ATLANTIC BEACH
Management's Discussion and Analysis

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, as of June, Carteret County as a whole has an unemployment rate of 8.1%, which is below both the State average of 10.4% and the national average of 9.2%.
- 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, 2012

The Town of Atlantic Beach budget for the Fiscal Year Ending June 30, 2012 totals \$7,069,535 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 2011-12 fiscal year because of anticipated revenue shortfalls, economic conditions and the Town's attempt to conservatively balance the budget. Capital outlay expenditures in the General Fund include three replacement police department vehicles and one public services claw truck, both funded by appropriating fund balance in the amount of \$190,000. Capital outlay expenditures in the Water Fund include the replacement of two pickup trucks.

Governmental Activities. The Town's largest single source of revenue continues to be generated from ad valorem property taxes, which is \$0.17 per \$100 valuation tax rate on a \$1,641,934,817 tax base. This comprises approximately 50 % of General Fund estimated revenues.

Business - type Activities. The Town's business type activities, which include the Town's water and stormwater services were budgeted without any new or increased fees.

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 David R. Walker, Town Manager, P.O. Box 10, 125 West Fort Macon Road, Atlantic Beach, NC 28512.



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