

TOWN OF OCEAN ISLE BEACH
Ocean Isle Beach, North Carolina

FINANCIAL STATEMENTS
Year Ended June 30, 2014

TOWN OF OCEAN ISLE BEACH
Ocean Isle Beach, North Carolina

BOARD OF COMMISSIONERS

Betty Williamson

David Grantham

Dean Walters

Bob Williams

Wayne Rowell

ADMINISTRATIVE OFFICERS

Debbie Smith
Mayor

Dean Walters
Mayor Pro-Tem

Daisy Ivey
Finance Officer & Town Administrator

Town of Ocean Isle Beach, North Carolina
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June 30, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Ocean Isle Beach, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 financial statements are free from material misstatement. The financial statements of Ocean Isle Beach ABC Board were not audited in accordance with Governmental Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Ocean Isle Beach, North Carolina, as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and Tourist Accommodation Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Ocean Isle Beach, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Implementation Act* 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, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2014 on our consideration of the Town of Ocean Isle Beach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ocean Isle Beach's internal control over financial reporting and compliance.

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

Thompson, Price, Scott, Adams & Co., P.A.
Wilmington, North Carolina
October 7, 2014

The Town of Ocean Isle Beach

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Management's Discussion and Analysis

As management of the Town of Ocean Isle Beach, we offer readers of the Town of Ocean Isle Beach's financial statements this narrative overview and analysis of the financial activities of the Town of Ocean Isle Beach for the fiscal year ended June 30, 2014. 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.

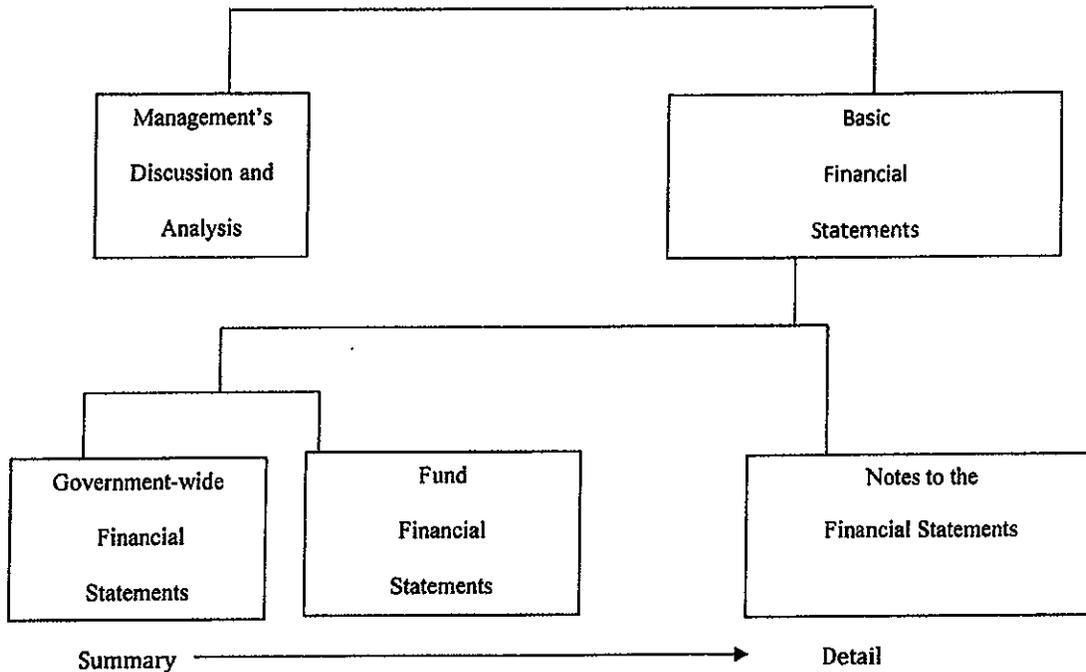
Financial Highlights

- The assets and deferred outflows of resources of the Town of Ocean Isle Beach exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$22,542,150 (*net position*).
- The Town's total net position increased by \$896,788, primarily due to increases in the governmental activities.
As of the close of the current fiscal year, the Town of Ocean Isle Beach's governmental funds reported combined ending fund balances of \$9,936,468, an increase of \$432,946 in comparison with the prior year. Approximately 30 percent of this total amount, or \$2,935,375 is available for spending at the government's discretion (unassigned).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,935,375 or 34% of total general fund expenditures for the fiscal year.
- The Town of Ocean Isle Beach's total debt increased by \$1,386,293 during the current fiscal year. The key factors in this change were the current year loan proceeds incurred of \$1,600,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Town of Ocean Isle Beach's 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 Ocean Isle 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 additional details about the Town's individual funds. Budgetary information required by the General Statutes can also be found in this part of the statements.

Management Discussion and Analysis

Town of Ocean Isle Beach

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 position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales tax 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 and sewer and stormwater services offered by the Town of Ocean Isle Beach. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The Fund Financial Statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Ocean Isle 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 North Carolina General Statutes or the Town's budget ordinance. All of the funds of the Town of Ocean Isle 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 Position 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 Ocean Isle 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.

Proprietary Funds – Town of Ocean Isle Beach has two proprietary funds. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Ocean Isle Beach uses enterprise funds to account for its water and sewer activities. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Management Discussion and Analysis
Town of Ocean Isle Beach

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 follow Exhibit 8 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

Government-Wide Financial Analysis

Town of Ocean Isle Beach's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 9,924,424	\$ 9,724,124	\$ 3,703,687	\$ 4,587,584	\$ 13,628,111	\$ 14,311,708
Restricted Cash	533,831	-	213,841	-	747,672	-
Capital assets	6,740,275	5,149,556	4,717,018	3,551,213	11,457,293	8,700,769
Deferred outflows of resources	-	-	-	-	-	-
Total assets	17,198,530	14,873,680	8,634,546	8,138,797	25,833,076	23,012,477
Long-term liabilities outstanding	1,901,121	987,386	32,700	239,503	1,933,821	1,226,889
Other liabilities	848,055	140,226	499,050	-	1,347,105	140,226
Deferred inflows of resources	-	-	-	-	-	-
Total liabilities	2,749,176	1,127,612	531,750	239,503	3,280,926	1,367,115
Net position:						
Net investment in capital assets	4,455,447	4,261,021	4,717,018	3,551,213	9,172,465	7,812,234
Restricted	434,634	424,304	-	-	434,634	424,304
Unrestricted	9,549,273	9,060,743	3,385,778	4,348,081	12,935,051	13,408,824
Total net position	\$ 14,439,354	\$ 13,746,068	\$ 8,102,796	\$ 7,899,294	\$ 22,542,150	\$ 21,645,362

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Ocean Isle Beach exceeded liabilities and deferred inflows by \$22,552,150 as of June 30, 2014. The Town's net position increased by \$896,788 for the fiscal year ended June 30, 2014. However, the largest portion (\$9,172,465) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Ocean Isle Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Ocean Isle Beach's net investment in 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. The remaining balance of \$12,935,051 is unrestricted. An additional portion of the Town of Ocean Isle Beach's net position, \$434,634, represents resources that are subject to external restrictions on how they may be used.

Management Discussion and Analysis
Town of Ocean Isle Beach

Several particular aspects of the Town's financial operations influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 94.63%.
- Increase in revenues within the Governmental Activities.

Town of Ocean Isle Beach
Changes in Net Assets
Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues						
Charges for Services	\$ 1,387,784	\$ 1,538,902	\$ 2,520,894	\$ 2,607,613	\$ 3,908,678	\$ 4,146,515
Operating grants & contributions	1,562,234	58,009	-	-	1,562,234	58,009
Capital grants & contributions	-	31,701	297,785	-	297,785	31,701
General revenues:						
Property taxes	2,800,625	2,329,739	-	-	2,800,625	2,329,739
Other taxes	2,254,915	2,218,001	-	-	2,254,915	2,218,001
Investment earnings	2,273	15,179	1,001	6,466	3,274	21,645
Other	-	7,011	70,654	78,645	70,654	85,656
Total revenues	8,007,831	6,198,542	2,890,334	2,692,724	10,898,165	8,891,266
Expenses:						
General government	1,200,065	2,139,544	-	-	1,200,065	2,139,544
Public Safety	1,744,860	1,697,429	-	-	1,744,860	1,697,429
Transportation	373,319	319,869	-	-	373,319	319,869
Environmental Protections	80,722	68,032	-	-	80,722	68,032
Mosquito control	8,350	5,525	-	-	8,350	5,525
Economic Development	3,873,676	525,785	-	-	3,873,676	525,785
Interest on long-term debt	33,553	42,774	-	-	33,553	42,774
Water and Sewer	-	-	2,686,832	2,044,953	2,686,832	2,044,953
Total expenses	7,314,545	4,798,958	2,686,832	2,044,953	10,001,377	6,843,911
Increase (decrease) in net position before transfers	693,286	1,399,584	203,502	647,771	896,788	2,047,355
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	693,286	1,399,584	203,502	647,771	896,788	2,047,355
Special item	-	-	-	(7,352,940)	-	(7,352,940)
Net position, July 1	13,746,068	12,346,484	7,899,294	14,604,463	21,645,362	26,950,947
Net position, June 30	\$ 14,439,354	\$ 13,746,068	\$ 8,102,796	\$ 7,899,294	\$ 22,542,150	\$ 21,645,362

Management Discussion and Analysis Town of Ocean Isle Beach

Governmental activities. Governmental activities increased the Town's net position by \$693,286 thereby accounting for all of the total increase in the net position of the Town of Ocean Isle Beach. Key elements of this increase are as follows:

- Increased revenues.
- Property tax revenues increased.

Business-type activities. Business-type activities increased the Town of Ocean Isle Beach's net position by \$203,502, accounting for 23% of the total growth in the government's net position. Key elements of this increase are as follows:

- Customer base flat but steady.
- Improvements in billing and collection process.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Ocean Isle Beach's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Ocean Isle Beach'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 Ocean Isle Beach. At the end of the current fiscal year, Town of Ocean Isle Beach's fund balance available in the General Fund was \$2,935,375, while total fund balance reached \$8,232,038. The Governing Body of Town of Ocean Isle Beach has determined that the Town should maintain an available fund balance of 8% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 34% of general fund expenditures, while total fund balance represents 96% of the same amount.

At June 30, 2014 the governmental funds of Town of Ocean Isle Beach reported a combined fund balance of \$9,936,468, with a net increase in fund balance of \$432,946. Included in this change in fund balance is an increases in the fund balance in the Tourist Accommodation fund.

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.

Proprietary Funds. The Town of Ocean Isle Beach's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,385,778. The total change in net position funds was \$203,502. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Ocean Isle Beach's business-type activities.

Management Discussion and Analysis
Town of Ocean Isle Beach

Capital Asset and Debt Administration

Capital assets. The Town of Ocean Isle Beach's investment in capital assets for its governmental and business-type activities as of June 30, 2014 totals \$11,447,293 (net of accumulated depreciation). These assets include buildings, land, infrastructure, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Construction of a water tank and meter vault.
- Purchase of (2) Ford Explorers and (1) Ford F 150.
- Purchase of a time clock system.

**Town of Ocean Isle Beach's Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 4,927,167	\$ 3,327,167	\$ 1,346,936	\$ 1,346,936	\$ 6,274,103	\$ 4,674,103
Buildings and system	924,227	949,228	3,118,929	1,851,222	4,043,156	2,800,450
Machinery and equipment	-	-	221,683	308,302	221,683	308,302
Infrastructure	512,037	623,372	-	-	512,037	623,372
Vehicles and motor equipment	366,844	249,789	29,470	44,753	396,314	294,542
Construction in progress	-	-	-	-	-	-
Total	\$ 6,730,275	\$ 5,149,556	\$ 4,717,018	\$ 3,551,213	\$ 11,447,293	\$ 8,700,769

Additional information on the Town's capital assets can be found in the notes of the Basic Financial Statements.

Long-term Debt. As of June 30, 2014 the Town of Ocean Isle Beach had total bonded debt outstanding of \$0.

Town of Ocean Isle Beach's Outstanding Debt

The Town of Ocean Isle Beach's total debt increased by \$1,386,293 during the past fiscal year, primarily due to newly issued debt.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Ocean Isle Beach is \$169,748,987.

Additional information regarding the Town of Ocean Isle Beach's long-term debt can be found in the notes of the Basic Financial Statements.

Management Discussion and Analysis

Town of Ocean Isle Beach

Economic Factors and Next Year's Budgets and Rates

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

- Unemployment remained steady.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities. Property taxes are expected to remain the same as the current tax rate. The Town will use increases in revenues to finance programs currently in place. No new revenues are anticipated and other current sources remain constant. Management continually seeks grants and funding from outside sources to supplement the Town's revenue streams.

Business-type Activities. The water and sewer rates in the Town were left unchanged for the coming 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 Director of Finance, Town of Ocean Isle Beach, 3 West Third Street, Ocean Isle Beach, NC 28469. You can also call (910) 579-2166.

BASIC FINANCIAL STATEMENTS

Town of Ocean Isle Beach, North Carolina
Statement of Net Position
June 30, 2014

	Primary Government			Ocean Isle Beach ABC Board
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 9,548,631	\$ 3,128,208	\$ 12,676,839	\$ 214,652
Restricted cash	533,831	213,841	747,672	-
Receivables (net)	308,759	610,013	918,772	-
Prepaid items	-	-	-	5,323
Inventories	-	32,500	32,500	224,644
Due from other funds	67,034	(67,034)	-	-
Non Current Assets:				
Capital assets:				
Land, improvements, and construction in progress	4,927,167	1,346,936	6,274,103	-
Other capital assets, net of depreciation	1,803,108	3,370,082	5,173,190	8,710
Total capital assets	6,730,275	4,717,018	11,447,293	8,710
Total assets	\$ 17,188,530	\$ 8,634,546	\$ 25,823,076	\$ 453,329
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	\$ 65,740	\$ 285,209	\$ 350,949	\$ 115,182
Due to other funds	-	-	-	-
Compensated absences payable	98,751	6,635	105,386	-
Customer deposits	296,204	213,841	510,045	-
Long-term liabilities:				
Compensated absences payable	13,653	26,065	39,718	-
Due within one year	373,707	-	373,707	-
Due in more than one year	1,901,121	-	1,901,121	-
Total liabilities	2,749,176	531,750	3,280,926	115,182
NET POSITION				
Net investment in capital assets	4,455,447	4,717,018	9,172,465	8,710
Restricted for:				
Streets	237,627	-	237,627	-
State Stabilization	271,906	-	271,906	-
Working Capital	-	-	-	41,893
Unrestricted	9,474,374	3,385,778	12,860,152	287,544
Total net position	\$ 14,439,354	\$ 8,102,796	\$ 22,542,150	\$ 338,147

The notes to the financial statements are an integral part of this statement.

Town of Ocean Isle Beach, North Carolina
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,016,359	\$ 36,000	\$ -	\$ -
Public safety	1,744,860	880,095	8,551	-
Mosquito control	8,350	-	1,516	-
Transportation	373,319	-	32,612	-
Environmental protection	80,722	62,755	5,036	-
Economic development	567,007	7,721	39,519	-
Special projects	3,306,669	377,605	1,475,000	-
Planning and zoning	183,706	-	-	-
Interest on long-term debt	33,553	23,608	-	-
Total governmental activities	7,314,545	1,387,784	1,562,234	-
Business-type activities:				
Water	1,287,081	1,340,294	-	-
Sewer	1,399,751	1,180,600	-	297,785
Total business-type activities	2,686,832	2,520,894	-	297,785
Total Primary Government	\$ 10,001,377	\$ 3,908,678	\$ 1,562,234	\$ 297,785
Component unit:				
ABC Board	1,510,551	1,519,325	-	-
Total component unit	\$ 1,510,551	\$ 1,519,325	\$ -	\$ 297,785

General revenues:

Taxes:

Property taxes, levied for general purpose

Local option sales tax

Other taxes and licenses

Grants and contributions not restricted to specific programs

Investment earnings, unrestricted

Miscellaneous

Total general revenues

Change in net position

Net position, beginning

Net position, ending

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Ocean Isle Beach ABC Board
\$ (980,359)	\$ -	\$ (980,359)	\$ -
(856,214)	-	(856,214)	-
(6,834)	-	(6,834)	-
(340,707)	-	(340,707)	-
(12,931)	-	(12,931)	-
(519,767)	-	(519,767)	-
(1,454,064)	-	(1,454,064)	-
(183,706)	-	(183,706)	-
(9,945)	-	(9,945)	-
<u>(4,364,527)</u>	<u>-</u>	<u>(4,364,527)</u>	<u>-</u>
-	53,213	53,213	-
-	78,634	78,634	-
-	131,847	131,847	-
<u>(4,364,527)</u>	<u>131,847</u>	<u>(4,232,680)</u>	<u>-</u>
-	-	-	8,774
-	-	-	<u>8,774</u>
2,800,625	-	2,800,625	-
127,784	-	127,784	-
2,127,131	-	2,127,131	-
-	-	-	-
2,273	1,001	3,274	236
-	70,654	70,654	(9,012)
<u>5,057,813</u>	<u>71,655</u>	<u>5,129,468</u>	<u>(8,776)</u>
693,286	203,502	896,788	(2)
<u>13,746,068</u>	<u>7,899,294</u>	<u>21,645,362</u>	<u>338,149</u>
<u>\$ 14,439,354</u>	<u>\$ 8,102,796</u>	<u>\$ 22,542,150</u>	<u>\$ 338,147</u>

Town of Ocean Isle Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2014

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Tourist Accommodation Fund</u>	<u>Total Non- Major Funds</u>	
ASSETS				
Cash and cash equivalents	\$ 7,843,685	\$ 1,422,189	\$ 282,757	\$ 9,548,631
Restricted cash	533,831	-	-	533,831
Taxes receivables, net	151,082	-	-	151,082
Due from other funds	122,990	-	-	122,990
Account receivables, net	74,017	74,748	151	148,916
Total assets	<u>\$ 8,725,605</u>	<u>\$ 1,496,937</u>	<u>\$ 282,908</u>	<u>\$ 10,505,450</u>
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 41,718	\$ 13,583	\$ 10,439	\$ 65,740
Surety bond/Bscrow payable	296,204	-	-	296,204
Due to other funds	4,563	51,376	17	55,956
Total liabilities	<u>342,485</u>	<u>64,959</u>	<u>10,456</u>	<u>417,900</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	151,082	-	-	151,082
Total deferred inflows of resources	<u>151,082</u>	<u>-</u>	<u>-</u>	<u>151,082</u>
FUND BALANCES				
Restricted				
Stabilization by State Statute	197,007	74,748	151	271,906
Streets - Powell Bill	237,627	-	-	237,627
Committed				
Economic development	4,862,029	1,357,230	272,301	6,491,560
Unassigned	2,935,375	-	-	2,935,375
Total fund balances	<u>8,232,038</u>	<u>1,431,978</u>	<u>272,452</u>	<u>9,936,468</u>
Total Liabilities, deferred inflows of resources and fund balances	<u>\$ 8,725,605</u>	<u>\$ 1,496,937</u>	<u>\$ 282,908</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the Liabilities for earned revenues but considered deferred inflows in fund statements.	6,730,275
Other long-term assets (accrued interest from taxes) are not available to pay current period expenditures and therefore are deferred in the funds.	151,082
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds (Note 4).	8,761
	<u>(2,288,481)</u>
Net position of governmental activities	<u>\$ 14,538,105</u>

Town of Ocean Isle Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2014

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Tourist Accommodation Fund</u>	<u>Total Non- Major Fund</u>	
REVENUES				
Ad valorem taxes	\$ 2,721,158	\$ -	\$ -	\$ 2,721,158
Other taxes and licenses	151,392	1,762,814	-	1,914,206
Unrestricted intergovernmental	407,142	-	-	407,142
Restricted intergovernmental	1,520,584	-	12,019	1,532,603
Permits and fees	884,310	-	-	884,310
Sales and services	413,605	-	-	413,605
Investment earnings	2,041	232	-	2,273
Miscellaneous	-	17,846	35,221	53,067
Total revenues	<u>6,100,232</u>	<u>1,780,892</u>	<u>47,240</u>	<u>7,928,364</u>
EXPENDITURES				
Current:				
General government	2,620,435	-	-	2,620,435
Public safety	1,760,331	-	-	1,760,331
Transportation	325,386	-	-	325,386
Mosquito control	8,350	-	-	8,350
Planning and zoning	183,706	-	-	183,706
Special projects	3,553,929	-	-	3,553,929
Environmental protection	80,722	-	-	80,722
Economic development	-	499,423	63,136	562,559
Total expenditures	<u>8,532,859</u>	<u>499,423</u>	<u>63,136</u>	<u>9,095,418</u>
Excess (deficiency) of revenues over expenditures	<u>(2,432,627)</u>	<u>1,281,469</u>	<u>(15,896)</u>	<u>(1,167,054)</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	698,816	-	-	698,816
Transfers to other funds	-	(698,816)	-	(698,816)
Installment purchase obligations issued	1,600,000	-	-	1,600,000
Total other financing sources and uses	<u>2,298,816</u>	<u>(698,816)</u>	<u>-</u>	<u>1,600,000</u>
Net change in fund balance	<u>(133,811)</u>	<u>582,653</u>	<u>(15,896)</u>	<u>432,946</u>
Fund balances-beginning	8,365,849	849,325	288,348	9,503,522
Fund balances-ending	<u>\$ 8,232,038</u>	<u>\$ 1,431,978</u>	<u>\$ 272,452</u>	<u>\$ 9,936,468</u>

Town of Ocean Isle Beach, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

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

Net changes in fund balances - total governmental funds		\$	432,946
<p>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.</p>			
Capital outlay expenditures which were capitalized	1,735,246		
Depreciation expense for governmental assets	<u>(154,527)</u>		
			1,580,719
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>			
Change in deferred revenue for tax revenues			79,467
<p>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:</p>			
Compensated absences			(13,553)
<p>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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>			
			<u>(1,386,293)</u>
Total changes in net position of governmental activities		\$	<u>693,286</u>

Town of Ocean Isle Beach, North Carolina
General Fund and Annually Budgeted Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2014

	General Fund				Tourist Accommodation Fund			
	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)	Original Budget	Final Budget	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenues:								
Ad valorem taxes	\$ 2,824,128	\$ 2,840,154	\$ 2,721,158	\$ (118,996)	\$ -	\$ -	\$ -	\$ -
Other taxes and licenses	159,800	144,274	151,392	7,118	1,771,914	1,771,914	1,762,814	(9,100)
Unrestricted intergovernmental	425,555	432,355	407,142	(25,213)	-	-	-	-
Restricted intergovernmental	64,865	1,538,865	1,520,584	(18,281)	-	-	-	-
Permits and fees	763,033	819,796	884,310	64,514	-	-	-	-
Sales and services	2,439,906	589,152	413,605	(175,547)	-	-	-	-
Investment earnings	13,000	13,000	2,041	(10,959)	1,500	1,500	232	(1,268)
Miscellaneous	3,200	-	-	-	15,855	15,855	17,846	1,991
Total revenues	6,693,487	6,377,596	6,100,232	(277,364)	1,789,269	1,789,269	1,780,892	(8,377)
Expenditures								
Current:								
General government	1,994,703	2,636,695	2,620,435	16,260	-	-	-	-
Public safety	2,014,522	1,875,270	1,760,331	114,939	-	-	-	-
Transportation	435,530	325,530	325,386	144	-	-	-	-
Mosquito control	9,050	9,050	8,350	700	-	-	-	-
Planning and zoning	208,499	208,499	183,706	24,793	-	-	-	-
Special projects	2,340,543	4,023,551	3,553,929	469,622	-	-	-	-
Environmental protection	73,000	83,000	80,722	2,278	-	-	-	-
Economic development	-	-	-	-	648,378	648,378	499,423	148,955
Total expenditures	7,075,847	9,161,595	8,532,859	628,736	648,378	648,378	499,423	148,955
Revenues over (under) expenditures	(382,360)	(2,783,999)	(2,432,627)	351,372	1,140,891	1,140,891	1,281,469	140,578

The notes to the financial statements are an integral part of this statement.

Other financing sources (uses):									
Proceeds from installment purchase	-	1,600,000	-	-	-	-	-	-	-
Transfers (to)/from	-	1,140,891	-	-	-	-	-	-	-
Fund Balance Appropriated	382,360	43,108	-	(1,140,891)	(1,140,891)	(698,816)	-	-	-
Total other financing sources (uses)	<u>382,360</u>	<u>2,783,999</u>	<u>(485,183)</u>	<u>(1,140,891)</u>	<u>(1,140,891)</u>	<u>(698,816)</u>	<u>-</u>	<u>-</u>	<u>442,075</u>
Net change in fund balance	\$ -	\$ -	\$ (133,811)	\$ -	\$ -	\$ 582,653	\$ -	\$ -	\$ 582,653
Fund balances:									
Beginning of year, July 1							849,325		
End of year, June 30									<u>\$ 1,431,978</u>

Town of Ocean Isle Beach, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2014

	<u>Major Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>June 30, 2014</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,958,003	\$ 1,170,205	\$ 3,128,208
Accounts Receivable (net)	243,436	356,221	599,657
Due from other funds	12,949	18,534	31,483
Inventories	19,994	12,506	32,500
Other Receivable	5,178	5,178	10,356
Total current assets	<u>2,239,560</u>	<u>1,562,644</u>	<u>3,802,204</u>
Noncurrent assets:			
Restricted cash and cash equivalents	213,841	-	213,841
Capital assets (net)	<u>3,282,506</u>	<u>1,434,512</u>	<u>4,717,018</u>
Total assets	<u>\$ 5,735,907</u>	<u>\$ 2,997,156</u>	<u>\$ 8,733,063</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 277,697	\$ 7,512	\$ 285,209
Customer deposits	213,841	-	213,841
Due to other funds	72,134	26,383	98,517
Compensated absences payable	5,905	730	6,635
Note payable - current	-	-	-
Total	<u>569,577</u>	<u>34,625</u>	<u>604,202</u>
Noncurrent liabilities:			
Compensated absences payable	23,194	2,871	26,065
Note payable - non-current	-	-	-
Total	<u>23,194</u>	<u>2,871</u>	<u>26,065</u>
Total liabilities	<u>592,771</u>	<u>37,496</u>	<u>630,267</u>
Net Position			
Net investment in capital assets	3,282,506	1,434,512	4,717,018
Unrestricted	1,860,630	1,525,148	3,385,778
Total net position	<u>\$ 5,143,136</u>	<u>\$ 2,959,660</u>	<u>\$ 8,102,796</u>

Town of Ocean Isle Beach, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2014

	<u>Major Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>June 30, 2014</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,958,003	\$ 1,170,205	\$ 3,128,208
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Total liabilities	<u>592,771</u>	<u>37,496</u>	<u>630,267</u>
Net Position			
Net investment in capital assets	3,282,506	1,434,512	4,717,018
Unrestricted	1,860,630	1,525,148	3,385,778
Total net position	<u>\$ 5,143,136</u>	<u>\$ 2,959,660</u>	<u>\$ 8,102,796</u>

Town of Ocean Isle Beach, North Carolina
Statement of Revenues, Expenses, and
Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	<u>Major Enterprise Funds</u>		<u>Totals</u>
	<u>Water</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>June 30,</u> <u>2014</u>
Operating revenues:			
Charges for services	\$ 1,305,380	\$ 1,122,532	\$ 2,427,912
Water & Sewer taps	28,600	9,000	37,600
Other operating revenues	6,314	49,068	55,382
Total operating revenues	<u>1,340,294</u>	<u>1,180,600</u>	<u>2,520,894</u>
Operating expenses:			
Administration	102,743	18,217	120,960
Operations	1,110,897	1,283,806	2,394,703
Depreciation	73,441	97,728	171,169
Total operating expenses	<u>1,287,081</u>	<u>1,399,751</u>	<u>2,686,832</u>
Operating income	<u>53,213</u>	<u>(219,151)</u>	<u>(165,938)</u>
Nonoperating revenues (expenses):			
Investment earnings	739	262	1,001
Interest and fees	-	-	-
Lease	70,654	-	70,654
Total nonoperating revenues (expenses)	<u>71,393</u>	<u>262</u>	<u>71,655</u>
Net income before transfers and capital contributions	<u>124,606</u>	<u>(218,889)</u>	<u>(94,283)</u>
Capital contributions	-	297,785	297,785
Transfer in (out)	-	-	-
Change in net position	124,606	78,896	203,502
Total net position, beginning	5,018,530	2,880,764	7,899,294
Total net position, ending	<u>\$ 5,143,136</u>	<u>\$ 2,959,660</u>	<u>\$ 8,102,796</u>

The notes to the financial statements are an integral part of this statement.

Town of Ocean Isle Beach, North Carolina
Proprietary Funds
Statement of Cash Flows
For The Year Ended June 30, 2014

	<u>Major Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>June 30, 2014</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,333,369	\$ 1,131,631	\$ 2,465,000
Cash paid for goods and services	(797,890)	(471,497)	(1,269,387)
Cash paid to employees for services	(371,237)	(106,634)	(477,871)
Customer deposits net	26,678	-	26,678
Net cash provided/(used) by operating activities	<u>416,257</u>	<u>(173,730)</u>	<u>242,527</u>
Cash flows from noncapital financing activities:			
Capital contributions	-	297,785	297,785
Lease/rental proceeds	70,654	-	70,654
Net cash provided/(used) by noncapital financing activities	<u>70,654</u>	<u>297,785</u>	<u>70,654</u>
Cash flows from capital and related financing activities:			
Transfers in (out) net	-	-	-
Acquisition and construction of capital assets	(1,256,914)	(80,060)	(1,336,974)
Principal paid on bond maturities and note agreements	-	-	-
Interest and fees paid on bond maturities and notes agreements	-	-	-
Net cash provided/(used) by capital and related financing activities	<u>(1,256,914)</u>	<u>(80,060)</u>	<u>(1,336,974)</u>
Cash flows from investing activities:			
Interest on investments	739	262	1,001
Net decrease in cash and cash equivalents	(769,264)	44,257	(725,007)
Cash and cash equivalents:			
Beginning of year, July 1	2,941,108	1,125,948	4,067,056
End of year, June 30	<u>\$ 2,171,844</u>	<u>\$ 1,170,205</u>	<u>\$ 3,342,049</u>

The notes to the financial statements are an integral part of this statement.

Town of Ocean Isle Beach, North Carolina
Proprietary Fund
Statement of Cash Flows
For The Year Ended June 30, 2014

	<u>Water</u> <u>Fund</u>	<u>Sewer</u> <u>Fund</u>	<u>Totals</u> <u>June 30,</u> <u>2014</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 53,213	\$ (219,151)	\$ (165,938)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	73,441	97,728	171,169
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(6,925)	(48,969)	(55,894)
(Increase) decrease in inventory	4,132	(3,189)	943
Increase (decrease) in accounts payable and accrued liabilities	265,718	(149)	265,569
Increase(decrease) in deposits	26,678	-	26,678
Total adjustments	<u>363,044</u>	<u>45,421</u>	<u>408,465</u>
Net cash provided/(used) by operating activities	<u>\$ 416,257</u>	<u>\$ (173,730)</u>	<u>\$ 242,527</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Town of Ocean Isle Beach, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Ocean Isle Beach, NC conform to generally accepted accounting principles as applicable to governments and its discretely presented component unit. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Ocean Isle Beach is a municipal corporation, which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally-separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Ocean Isle Beach ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Ocean Isle Beach ABC Board, 3 Causeway, Ocean Isle Beach, North Carolina 28469.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Notes to the Financial Statements

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies result from non-exchange transactions or ancillary activities. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Tourist Accommodation Tax Fund. This fund is used to account for accommodation tax monies.

The town reports the following non-major governmental fund:

Airport Local Fund. This fund is used to account for developmental of the airport.

Airport Grant Fund. This fund is used to account for development of the airport with grant monies.

The Town reports the following major enterprise funds:

Water Fund and Sewer Fund. These two separate funds are used to account for the Town's water and sewer operations.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Tourist Accommodations Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. An annual budget is also adopted for the Special Revenue Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The Finance Officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$10,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$10,000 must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the Town and the ABC board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC board may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town and the ABC board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

In accordance with State law, the Town has invested in securities which are callable and which provide periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2013. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

4. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

5. Inventory

The inventories of the Town and the ABC board are valued at cost (first in, first out), which approximates market.

The inventories of the Town's enterprise funds and those of the Town of Ocean Isle Beach ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories are expensed when consumed rather than purchased.

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost for the Town's assets are \$5,000.

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Other assets of the Town are depreciated on a class life basis at the following rates:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Infrastructure	2%
Buildings	5%
Furniture and office equipment	20%
Maintenance and construction equipment	20%
Medium and heavy motor vehicles	20%
Automobiles and light trucks	20%

Property, plant, and equipment of the ABC board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	20 years
Furniture & Equipment	10 years
Vehicles	3-5 years
Leasehold Improvements	10-20 years
Computers, etc.	3 years

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does not have any items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only one item that meet the criterion for this category - property taxes receivable.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

Vacation leave is accumulated at the rate of up to thirty (30) days per year with each leave being fully vested when earned. For the Town's government wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded with the funds as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

Both the Town and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Also, customer deposits and monies held in escrow.

Town Restricted Cash

Enterprise Fund

	Customer Deposits	\$ 213,841
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General Fund

	Escrow Deposits	296,204
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	Powell Bill Funds	237,627
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Total Restricted Cash

	\$ 747,672	
	\$ 747,672	

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as investment in capital assets; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)]

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of total unexpended Powell Bill funds.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Ocean Isle Beach’s governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance – portion of fund balance that the Town of Ocean Isle Beach intends to use for specific purposes.

Unassigned Fund Balance -- the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Ocean Isle Beach has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-city funds, city funds. For purposes of fund balance classification, expenditures are to be spent from restricted balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Office has the authority to deviate from this policy if it is in the best interest of the Town.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None.

2. Contractual Violations

None.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or ABC board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town or ABC Board, these deposits are considered to be held by the Town's or ABC Boards agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and the ABC Board have no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2014, the Town's deposits had a carrying amount of \$13,424,511 and a bank balance of \$13,335,301. \$1,750,000 of which was covered by federal depository insurance. The rest of which was covered under the pooling method. The ABC Board's deposits had a carrying amount of \$214,652 and a bank balance of \$280,635. All of the bank balance was covered by federal depository insurance.

2. Investments

All investments of the Town are in local banks, as Smart Money Market interest bearing accounts and certificates of deposit.

3. Receivables

	Accounts	Taxes and Related Accrued Interest	Due From Other Governments	Other	Total
Governmental Activities:					
General	\$ 27,528	\$ 159,843	\$ 46,489	\$ -	\$ 233,860
Special Revenue	-	-	74,899	-	74,899
Total Governmental Activities	\$ 27,528	\$ 159,843	\$ 121,388	\$ -	\$ 308,759
Business-Type Activities:					
Water	\$ 599,657	\$ -	\$ 10,356	\$ -	\$ 610,013
Total Business-Type Activities	\$ 599,657	\$ -	\$ 10,356	\$ -	\$ 610,013

Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowances for doubtful accounts.

Fund	6/30/2014
General Fund	
Taxes receivable	\$ -
Enterprise Funds	-
Total	\$ -

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

Notes to the Financial Statements

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,327,167	\$ 1,600,000	\$ -	\$ 4,927,167
Construction in progress	-	-	-	-
Total capital assets not being depreciated	3,327,167	1,600,000	-	4,927,167
Capital assets being depreciated:				
Buildings	1,417,681	-	-	1,417,681
Other improvements	385,204	-	-	385,204
Equipment and Vehicles	1,795,323	135,246	-	1,930,569
Infrastructure	789,842	-	-	789,842
Total capital assets being depreciated	4,388,050	135,246	-	4,523,296
Less accumulated depreciation for:				
Buildings	468,453	25,001	-	493,454
Other improvements	313,361	2,258	-	315,619
Equipment and Vehicles	1,545,534	87,776	-	1,633,310
Infrastructure	238,313	39,492	-	277,805
Total accumulated depreciation	2,565,661	\$ 154,527	\$ -	2,720,188
Total capital assets being depreciated, net	1,822,389			1,803,108
Governmental activity capital assets, net	\$ 5,149,556			\$ 6,730,275

Depreciation expense was charged to functions/programs of the primary government as follows:

General Government	\$ 34,109
Public Safety	64,216
Economic Development	2,709
Public Works	53,493
Total Depreciation Expense	<u>\$ 154,527</u>

Business-Type Activities:

	Beginning Balances	Increases	Decreases	Ending Balances
Water Fund				
Capital assets not being depreciated:				
Land	\$ 486,374	\$ -	\$ -	\$ 486,374
Construction in progress	-	-	-	-
Total capital assets not being depreciated	486,374	-	-	486,374
Capital assets being depreciated:				
Plant and Distribution Systems	2,564,088	1,256,914	-	3,821,002
Furniture, Equipment & Maintenance	343,651	-	-	343,651
Vehicles	173,902	-	-	173,902
Total capital assets being depreciated	3,081,641	1,256,914	-	4,338,555
Less accumulated depreciation for:				
Plant and Distribution Systems	1,040,593	55,608	-	1,096,201
Furniture, Equipment & Maintenance	291,325	10,465	-	301,790
Vehicles	137,064	7,368	-	144,432
Total accumulated depreciation	1,468,982	73,441	-	1,542,423
Total capital assets being depreciated, net	1,612,659			2,796,132
Water Fund capital assets, net	\$ 2,099,033			\$ 3,282,506

	Beginning Balances	Increases	Decreases	Ending Balances
Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 860,562	\$ -	\$ -	\$ 860,562
Construction in progress	-	-	-	-
Capital assets not being depreciated	860,562	-	-	860,562
Capital assets being depreciated:				
Plant and Distribution Systems	682,960	80,060	-	763,020
Furniture, Equipment & Maintenance	380,769	-	-	380,769
Vehicles	57,374	-	-	57,374
Total capital assets being depreciated	1,121,103	80,060	-	1,201,163
Less accumulated depreciation for:				
Plant and Distribution Systems	355,233	13,659	-	368,892
Furniture, Equipment & Maintenance	124,793	76,154	-	200,947
Vehicles	49,459	7,915	-	57,374
Total accumulated depreciation	529,485	97,728	-	627,213
Total capital assets being depreciated, net	591,618			573,950
Sewer Fund capital assets, net	\$ 1,452,180			\$ 1,434,512

	Beginning Balances	Increases	Decreases	Ending Balances
Total Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,346,936	\$ -	\$ -	\$ 1,346,936
Construction in progress	-	-	-	-
Total capital assets not being depreciated	1,346,936	-	-	1,346,936
Capital assets being depreciated:				
Plane and Distribution Systems	3,247,048	1,336,974	-	4,584,022
Furniture, Equipment & Maintenance	724,420	-	-	724,420
Vehicles	231,276	-	-	231,276
Total capital assets being depreciated	4,202,744	1,336,974	-	5,539,718
Less accumulated depreciation for:				
Plant and Distribution Systems	1,395,826	69,267	-	1,465,093
Furniture, Equipment & Maintenance	416,118	86,619	-	502,737
Vehicles	186,523	15,283	-	201,806
Total accumulated depreciation	1,998,467	171,169	-	2,169,636
Total capital assets being depreciated, net	2,204,277			3,370,082
Total business-type activities, net	\$ 3,551,213			\$ 4,717,018

Discretely Presented Component Unit:

Activity for the ABC Board for the year ended June 30, 2014, was as follows:

	Cost	Accumulated Depreciation	Net Amount
Furniture & Equipment	\$ 89,943	\$ (81,233)	\$ 8,710
Total	\$ 89,943	\$ (81,233)	\$ 8,710

B. Liabilities**1. Pension Plan Obligations****a. Local Governmental Employees' Retirement System**

Plan Description. The Town of Ocean Isle Beach and the ABC Board contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.43% and 6.43%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Ocean Isle Beach and the ABC Board are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$141,174, \$147,721, and \$138,038, respectively. The ABC Board's contribution to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$10,343, \$9,970, and \$9,501, respectively. The contributions made by the Town and the ABC Board equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description*

The Town of Ocean Isle Beach administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Town has not obtained an actuarial plan because its required contributions are considered immaterial. The Town funds the plan when benefits become due.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At June 30, 2014, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	20
Total	<u>20</u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. *Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

c. Supplemental Retirement Income Plan for Law Enforcement Officers and Other Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers and other employees employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers and other employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 were \$167,549 which consisted of \$134,349 from the Town and \$33,200 from the law enforcement officers and other employees.

d. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

Deferred inflows of resources at year-end is comprised of the following:

General Fund	Unavailable Revenue	Unearned Revenue
Prepaid Taxes	\$ -	\$ -
Taxes receivable (net)	151,082	-
Total	<u>\$ 151,082</u>	<u>\$ -</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon percentage of the total insurance values.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town is eligible to and had purchased commercial flood insurance for a total of \$500,000 for three structures.

Town of Ocean Isle Beach ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage's. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

5. Claims, Judgments, and Contingent Liabilities

At June 30, 2014, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long Term Obligations

a. Capital Leases

The Town has no capital leases.

b. Installment Purchases

On October 30, 2006 the Town entered into an installment/purchase contract for the purchase of a Land for a new Town Hall. The contract will be paid in annual principal installments of \$180,000 not including interest at 3.89% annum for 10 years. The balance at June 30, 2014 was \$540,000.

On July 1, 2008 the Town entered into an installment/purchase contract for the purchase of a fire station building. The contract will be paid in annual installments of \$44,797 including interest at 3.29% annum for 10 years. The balance at June 30, 2014 was \$134,828.

On March 13, 2014 the Town entered into an installment/purchase contract for the purchase of a land for a park area. The contract will be paid in annual installments of \$160,000 plus interest at 2.46% per annum for 10 years. The balance at June 30, 2014 was \$1,600,000.

The future minimum payments of the installment purchases as of June 30, 2014 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2014	373,707	64,802	-	-
2015	373,707	53,762	-	-
2016	373,707	42,459	-	-
2017	193,707	28,661	-	-
2018	160,000	23,616	-	-
Next Five Years	800,000	59,040		
	<u>\$ 2,274,828</u>	<u>\$ 272,340</u>	<u>\$ -</u>	<u>\$ -</u>

General Obligation Indebtedness

None.

e. Changes in Long-Term Liabilities

	Balance 1-Jul-13	Increases	Decreases	Balance 30-Jun-14	Current Portion
Governmental activities:					
Installment purchases	\$ 888,535	\$ 1,600,000	\$ (213,707)	\$ 2,274,828	\$ 373,707
Compensated absences	98,851	98,751	(85,198)	112,404	98,751
Governmental activity long-term liabilities	<u>\$ 987,386</u>	<u>\$ 1,698,751</u>	<u>\$ (298,905)</u>	<u>\$ 2,387,232</u>	<u>\$ 472,458</u>
Business-type activities:					
Compensated absences	\$ 26,065	\$ 6,635	\$ -	\$ 32,700	\$ 6,635
Installment purchases	-	-	-	-	-
Note payable	-	-	-	-	-
Business-type activity long-term liabilities	<u>\$ 26,065</u>	<u>\$ 6,635</u>	<u>\$ -</u>	<u>\$ 32,700</u>	<u>\$ 6,635</u>

At June 30, 2014, the Town of Ocean Isle Beach had a legal debt margin of \$169,748,987.

Notes to the Financial Statements

C. Interfund Balances and Activity

The composition of transfer activity as of June 30, 2014 is as follows:

Transfers to/From Other Funds

Transfers to/From Other Funds on June 30, 2014, consist of the following:

From the Accommodation Fund to the General Fund for expenditures	\$ 698,816
Total	<u>\$ 698,816</u>

The composition of interfund balances as of June 30, 2014 is as follows (shown net):

Interfund Balances (Net)

Due to/From Other Funds on June 30, 2014, consist of the following:

Due to Water Fund

Due to Water Fund from the General Fund for expenditures	\$ 4,563
	<u>\$ 4,563</u>

Due to Sewer Fund

Due to Sewer Fund from the Water Fund for expenditures	\$ 18,534
	<u>\$ 18,534</u>

Due to General Fund

Due from Accommodation Fund to the General Fund for expenditures	51,376
Due to General Fund from the Sewer Fund for expenditures	26,383
Due to General Fund from the Water Fund for expenditures	45,214
Due to General Fund from the Airport - Local Fund for expenditures	17
Total	<u>\$ 122,990</u>

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

D. Total fund balance - General Fund	\$ 8,232,038
Less:	
Stabilization by State Statute	197,007
Streets - Powell Bill	237,627
Economic Development	4,862,029
Remaining Fund Balance	\$ 2,935,375

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

Notes to the Financial Statements

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. no provision has been made in the accompanying financial statements for the refund of grant moneys.

V. **Significant Effects of Subsequent Events**

There are no subsequent events that would have a material affect on the financial statements. Subsequent events have been analyzed through the date that the financial statements were available to be issued.

GENERAL FUND

The General Fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

**Town of Ocean Isle Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 2,708,170	\$
Penalties and interest		12,988	
Total	<u>2,840,154</u>	<u>2,721,158</u>	<u>(118,996)</u>
Other taxes and licenses:			
Local option sales taxes		127,784	
Licenses & Fees		23,608	
Total	<u>144,274</u>	<u>151,392</u>	<u>7,118</u>
Unrestricted intergovernmental:			
ABC Revenue		100,830	
Utility franchise		190,692	
Telecommunications tax		12,724	
Video programming		87,619	
Beer and wine tax		2,515	
Tax/ Other Refunds		12,762	
Total	<u>432,355</u>	<u>407,142</u>	<u>(25,213)</u>
Restricted intergovernmental:			
Federal and State grants		1,481,420	
Mosquito control grant		1,516	
CAMA grant		5,036	
Powell Bill allocation		32,612	
Total	<u>1,538,865</u>	<u>1,520,584</u>	<u>(18,281)</u>
Permits and fees:			
CAMA local fees		4,215	
Contractor/Development fees		206,767	
Miscellaneous		5,448	
Fire fees		666,112	
Public safety fees/donations		1,768	
Total	<u>819,796</u>	<u>884,310</u>	<u>64,514</u>

**Town of Ocean Isle Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Sales and services:			
Canal dredge project		377,605	
Sale of fixed assets		-	
Rent		36,000	
Total	<u>589,152</u>	<u>413,605</u>	<u>(175,547)</u>
Investment earnings	<u>13,000</u>	<u>2,041</u>	<u>(10,959)</u>
Total Revenues	<u>6,377,596</u>	<u>6,100,232</u>	<u>(277,364)</u>
General government:			
Administration:			
Salaries & benefits		405,242	
Operating expense		145,684	
Capital Outlay		26,367	
Total	<u>580,523</u>	<u>577,293</u>	<u>3,230</u>
Building Inspector:			
Salaries & benefits		153,117	
Operating expense		32,536	
Capital Outlay		22,416	
Total	<u>217,944</u>	<u>208,069</u>	<u>9,875</u>
Governing board:			
Salaries & benefits		21,638	
Operating expense		8,610	
Capital Outlay		-	
Total	<u>30,288</u>	<u>30,248</u>	<u>40</u>
Public Buildings/Property:			
Salaries & benefits		48,974	
Operating expense		155,851	
Capital Outlay		1,600,000	
Total	<u>1,807,940</u>	<u>1,804,825</u>	<u>3,115</u>
Total General Government	<u>2,636,695</u>	<u>2,620,435</u>	<u>16,260</u>
Environmental:			
Contracted Services		80,722	
Total	<u>83,000</u>	<u>80,722</u>	<u>2,278</u>

**Town of Ocean Isle Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Streets:			
Salaries & benefits		169,776	
Operating expense		155,610	
Capital Outlay		-	
Total	<u>325,530</u>	<u>325,386</u>	<u>144</u>
Public Safety:			
Police:			
Salaries & benefits		767,936	
Operating expense		111,299	
Capital Outlay		86,463	
Total	<u>996,679</u>	<u>965,698</u>	<u>30,981</u>
Fire:			
Salaries & benefits		695,909	
Operating expense		98,724	
Capital Outlay		-	
Total	<u>878,591</u>	<u>794,633</u>	<u>83,958</u>
Total Public Safety	<u>1,875,270</u>	<u>1,760,331</u>	<u>114,939</u>
Mosquito control:			
Salaries & benefits		-	
Operating expense		8,350	
Capital Outlay		-	
Total	<u>9,050</u>	<u>8,350</u>	<u>700</u>
Planning and zoning:			
Salaries & benefits		134,928	
Operating expense		48,778	
Capital Outlay		-	
Total	<u>208,499</u>	<u>183,706</u>	<u>24,793</u>

Town of Ocean Isle Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Special projects:			
Dredging		-	
Erosion control		3,306,669	
Debt principal		213,707	
Debt interest		33,553	
Total	<u>4,023,551</u>	<u>3,553,929</u>	<u>469,622</u>
Total Expenditures	<u>9,161,595</u>	<u>8,532,859</u>	<u>628,736</u>
Revenues over (under) expenditures	(2,783,999)	(2,432,627)	351,372
Other financing sources (uses):			
Proceeds from installment purchase	1,600,000	1,600,000	
Transfers (to)/from other funds	1,140,891	698,816	
Fund Balance Appropriated	43,108	-	
Total	<u>2,783,999</u>	<u>2,298,816</u>	<u>(485,183)</u>
Net change in fund balance	\$ <u>-</u>	(133,811)	\$ <u>(133,811)</u>
Fund balances:			
Beginning of year, July 1		<u>8,365,849</u>	
End of year, June 30		\$ <u>8,232,038</u>	

OTHER MAJOR GOVERNMENTAL FUND

Major Governmental Funds - Accomodation Tax Fund

Town of Ocean Isle Beach, North Carolina
Special Revenue Fund - Tourist Accommodation Tax Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Accommodation Tax	\$	\$ 1,762,814	\$
Investment income		232	
Restricted Revenue		-	
Miscellaneous		17,846	
Total revenues	1,789,269	1,780,892	(8,377)
 Expenditures:			
Current:			
Economic and physical development:			
Public property & other		499,423	
Total expenditures	648,378	499,423	148,955
 Revenues over expenditures	1,140,891	1,281,469	140,578
 Other financing sources (uses)			
Transfers in (out)	(1,140,891)	(698,816)	-
Fund Balance Appropriated	-	-	-
Total other financing sources (uses)	(1,140,891)	(698,816)	442,075
 Revenues over expenditures and other sources	\$ -	582,653	\$ 582,653
 Fund balances:			
Beginning of year, July 1		849,325	
End of year, June 30		\$ 1,431,978	

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Town of Ocean Isle Beach, North Carolina
Combining Balance Sheet
Non Major Governmental Funds
For the Fiscal Year Ended June 30, 2014

	Airport Local	Airport Grants	2014 Totals
Assets			
Cash and Investments	\$ 282,757	\$ -	\$ 282,757
Accounts Receivable	151	-	151
Total Assets	282,908	-	282,908
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,349	\$ 9,090	\$ 10,439
Due to other funds	17	-	17
	1,366	9,090	10,456
 Fund Balances:			
Restricted			
Stabilization by State Statute	151	-	151
Economic development	281,391	(9,090)	272,301
Total Fund Balance	281,542	(9,090)	272,452
 Total Liabilities and Fund Equity	 \$ 282,908	 \$ -	 \$ 282,908

Town of Ocean Isle Beach, North Carolina
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Non Major Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>Airport Local</u>	<u>Airport Grant</u>	<u>2014 Totals</u>
Revenues:			
Local Revenues	\$ 27,500	\$ -	\$ 27,500
Investment Income	-	-	-
Restricted Revenue	-	12,019	12,019
Miscellaneous	7,721	-	7,721
Total Revenues	<u>35,221</u>	<u>12,019</u>	<u>47,240</u>
Expenditures:			
Current:			
Economic Development	<u>9,963</u>	<u>53,173</u>	<u>63,136</u>
Revenues over expenditures	25,258	(41,154)	(15,896)
Other Financing Sources (Uses):			
Transfers In (Out)	-	-	-
Fund balances:			
Beginning of year, July 1	256,284	32,064	288,348
End of year, June 30	<u>\$ 281,542</u>	<u>\$ (9,090)</u>	<u>\$ 272,452</u>

**Town of Ocean Isle Beach, North Carolina
Special Revenue Fund - Airport Local Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Investment Income	\$	\$ -	\$
Local revenues		27,500	
Miscellaneous		7,721	
Total	<u>123,357</u>	<u>35,221</u>	<u>(88,136)</u>
Expenditures:			
Current:			
Economic and physical development:			
Clear zone project			
Other improvements		9,963	
Total expenditures	<u>123,357</u>	<u>9,963</u>	<u>113,394</u>
Revenues over expenditures	-	25,258	25,258
Fund Balance Appropriated			-
Other Financing Sources (Uses):			
Transfers In (Out)	-	-	-
Net change in fund balance	<u>\$ -</u>	25,258	<u>\$ 25,258</u>
Fund balances:			
Beginning of year, July 1		256,284	
End of year, June 30		<u>\$ 281,542</u>	

**Town of Ocean Isle Beach, North Carolina
Special Revenue Fund - Airport Grant Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Interest income	\$	\$ -	\$
State grant		12,019	
Total	1,011,207	12,019	(999,188)
Expenditures:			
Current:			
Economic and physical development:			
Approach clear zone project		53,173	
Total expenditures	1,011,207	53,173	958,034
Revenues over expenditures	-	(41,154)	(41,154)
Fund Balance Appropriated	-	-	-
Other Financing Sources (Uses):			
Transfers In (Out)	-	-	-
Net change in fund balance	\$ -	(41,154)	\$ (41,154)
Fund balances:			
Beginning of year, July 1		32,064	
End of year, June 30		\$ (9,090)	

PROPRIETARY FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Town of Ocean Isle Beach, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Water sales:			
Residential &			
Commercial	\$	\$ 1,305,380	\$
Miscellaneous			
Total	<u>1,616,973</u>	<u>1,305,380</u>	<u>(311,593)</u>
Water taps	<u>21,000</u>	<u>28,600</u>	<u>7,600</u>
Other operating revenues	<u>7,000</u>	<u>6,277</u>	<u>(723)</u>
Total Operating Revenues	<u>1,644,973</u>	<u>1,340,257</u>	<u>(304,716)</u>
Nonoperating revenues:			
Lease	77,700	70,654	(7,046)
Miscellaneous	2,500	-	(2,500)
Interest earnings	<u>7,000</u>	<u>739</u>	<u>(6,261)</u>
Total Revenues	<u>1,732,173</u>	<u>1,411,650</u>	<u>(320,523)</u>
Expenditures:			
Water Administration:			
Salaries and benefits		85,801	
Repairs and maintenance		3,571	
Telephone		548	
Office supplies		1,596	
Operating Expenses		11,227	
Capital Outlay		-	
Total water administration	<u>104,545</u>	<u>102,743</u>	<u>1,802</u>
Water Operations:			
Salaries and benefits		285,436	
Repairs and maintenance		16,492	
Water purchase		707,787	
Supplies		53,883	
Operating expenditures		55,376	
Capital outlay		-	
Total	<u>1,313,748</u>	<u>1,118,974</u>	<u>194,774</u>

Town of Ocean Isle Beach, North Carolina
Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2014

Debt service:			
Interest and fees		-	
Principal retirement		-	
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>
Capital outlay:			
Land acquisition		-	
Vehicle/Equipment		-	
System improvements		1,256,914	
Total capital outlay	<u>1,259,070</u>	<u>1,256,914</u>	<u>2,156</u>
Total expenditures	<u>2,677,363</u>	<u>2,478,631</u>	<u>198,732</u>
Other financing sources (uses):			
Transfers in (out)	-	-	-
Fund balance appropriated	<u>945,190</u>	<u>-</u>	<u>(945,190)</u>
Total other financing sources (uses):	<u>945,190</u>	<u>-</u>	<u>(945,190)</u>
Revenues and other sources over (under) expenditures and other uses	\$ <u>-</u>	\$ <u>(1,066,981)</u>	\$ <u>(1,066,981)</u>

Reconciliation from budgetary basis (modified accrual) to full accrual:

Revenues over expenditures	\$ <u>(1,066,981)</u>
Reconciling items:	
Capital outlay	1,256,914
Depreciation	(73,441)
Change in compensated absences	3,982
Increase (decrease) in Inventory	4,132
Total reconciling items	<u>1,191,587</u>
Change in net position	\$ <u>124,606</u>

Town of Ocean Isle Beach, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Sewer charges:			
Residential &			
Commercial	\$	\$ 1,122,532	\$
Miscellaneous		14,068	
Total	<u>1,441,477</u>	<u>1,136,600</u>	<u>(304,877)</u>
Water & Sewer Taps	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Impact fees and other	<u>35,000</u>	<u>35,000</u>	<u>-</u>
Total Operating Revenues	<u>1,485,477</u>	<u>1,180,600</u>	<u>(304,877)</u>
Nonoperating revenues:			
Other	-	297,785	297,785
Interest earnings	<u>2,000</u>	<u>262</u>	<u>(1,738)</u>
Total Revenues	<u>1,487,477</u>	<u>1,478,647</u>	<u>(8,830)</u>
Expenditures:			
Sewer Administration:			
Salaries and benefits		2,653	
Operating Expenses		15,564	
Capital Outlay		-	
Total water administration	<u>18,750</u>	<u>18,217</u>	<u>533</u>
Sewer Operations:			
Salaries and benefits		103,981	
Repairs and maintenance		35,009	
Supplies		26,180	
Utilities		28,747	
Contracted services		641,843	
Brunswick County capital charge		275,000	
Operating expenditures		92,450	
Capital outlay		80,060	
Total	<u>1,734,729</u>	<u>1,283,270</u>	<u>451,459</u>

Town of Ocean Isle Beach, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2014

Debt service:			
Interest and fees		-	
Principal retirement		-	
Total debt service	-	-	-
Capital outlay:			
Improvements		-	
Equipment		-	
Total capital outlay	-	-	-
Total expenditures	1,753,479	1,301,487	451,992
Other financing sources (uses):			
Fund balance appropriated	266,002	-	(266,002)
Total other financing sources (uses)	266,002	-	(266,002)
Revenues and other sources over expenditures and other uses	\$ -	\$ 177,160	\$ 177,160

Reconciliation from budgetary basis (modified accrual) to full accrual:

Revenues over expenditures \$ 177,160

Reconciling items:

Capital outlay	-
Depreciation	(97,728)
Change in compensated abs	2,653
Increase (decrease) in Inventory	(3,189)
Total reconciling items	<u>(98,264)</u>

Change in net position \$ 78,896

OTHER SCHEDULES

This section includes additional information on property taxes, transfers, and cash and investments.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Ocean Isle Beach, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2014

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2013</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2014</u>
2013-2014	\$	\$ 2,795,387	\$ (2,645,165)	\$ 150,222
2012-2013	76,014	-	(75,154)	860
2011-2012	-	-	-	-
2010-2011	-	-	-	-
	<u>\$ 76,014</u>	<u>\$ 2,795,387</u>	<u>\$ (2,720,319)</u>	<u>151,082</u>
				Ad valorem taxes receivable - net
				\$ <u>151,082</u>
				<u>Reconciliation with revenues:</u>
				Ad valorem taxes - General Fund
				\$ 2,721,158
				Reconciling items:
				Discounts, Releases, Refunds
				12,149
				Interest collected
				(12,988)
				Total collections and credits
				\$ <u>2,720,319</u>

Town of Ocean Isle Beach, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Year Ended June 30, 2014

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current year's rate	\$ 2,150,297,692	\$ 0.13	\$ 2,795,387	\$ 2,770,915	\$ 24,472
Penalties				-	-
Total	<u>2,150,297,692</u>		<u>2,795,387</u>	<u>2,770,915</u>	<u>24,472</u>
Total property valuation	\$ <u>2,150,297,692</u>				
Net levy			2,795,387	2,770,915	24,472
Uncollected taxes at June 30, 2014			<u>(150,222)</u>	<u>(149,785)</u>	<u>(437)</u>
Current year's taxes collected			\$ <u>2,645,165</u>	\$ <u>2,621,130</u>	\$ <u>24,035</u>
Current levy collection percentage			<u>94.63%</u>	<u>94.59%</u>	<u>98.21%</u>

COMPLIANCE SECTION



Thompson, Price, Scott, Adams & Co., P.A.
4024 Oleander Drive Suite 3
Wilmington, North Carolina 28403
Telephone (910) 791-4872
Fax (910) 395-4872

**Report On Internal Control Over Financial Reporting And On Compliance and Other
Matters Based On An Audit Of Financial Statements Performed In Accordance With
*Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Ocean Isle Beach, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the Town of Ocean Isle Beach's basic financial statements, and have issued our report thereon dated October 7, 2014. The financial statements of Town of Ocean Isle Beach ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Ocean Isle Beach's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Ocean Isle Beach's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Ocean Isle Beach's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Thompson, Price, Scott, Adams & Co., P.A.
Wilmington, North Carolina
October 7, 2014



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Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

We have audited the Town of Ocean Isle Beach, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina* issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Ocean Isle Beach's major state programs for the year ended June 30, 2014. The Town of Ocean Isle Beach's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Ocean Isle Beach's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Ocean Isle Beach's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of Ocean Isle Beach's compliance.

Opinion on Each Major State Program

In our opinion, the Town of Ocean Isle Beach complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Town of Ocean Isle Beach is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Ocean Isle Beach's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

*Thompson, Price, Scott, Adams & Co., P.A.
Wilmington, North Carolina
October 7, 2014*

Town of Ocean Isle Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:

- Material weakness(es) identified? ___yes Xno

- Significant Deficiency(s) identified
that are not considered to be
material weaknesses ___yes Xnone reported

Noncompliance material to financial
statements noted ___yes Xno

Town of Ocean Isle Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

State Awards

Internal control over major State programs:

- Material Weakness(es) identified? __yes Xno
- Significant Deficiency(s) identified that are not
 considered to be a material weakness. __yes Xnone reported

Type of auditor's report issued on compliance for major State programs: Unmodified.

Any audit findings disclosed that are required to be
reported in accordance with the State Single Audit
Implementation Act __yes Xno

Identification of major State programs:

Program Name

Coastal Storm Damage Reduction Project

Town of Ocean Isle Beach, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2014

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

Town of Ocean Isle Beach, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2014

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.

Section IV - State Award Findings and Questioned Costs

None reported.

TOWN OF OCEAN ISLE BEACH, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Fiscal Year Ended June 30, 2014

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal Awards:					
<u>U. S. Department of Homeland Security</u>					
Passed-through N.C. Department of Public Safety: Hazard Mitigation Grant Program	97.039		235,085	-	-
<u>U.S. Dept. of Transportation</u>					
Passed-through the N.C. Department of Transportation: Airport Improvement Program	20.106		2,527	-	-
Passed-through the N.C. Department of Transportation: Federal Transit Capital Investment Grants	20.205-6		6,420	-	-
Total U.S. Dept. of Transportation					
State Grants:					
Cash Assistance:					
<u>N.C. Department of Transportation:</u>					
Powell Bill	DOT - 4	N/A	-	32,612	-
Plan Study		N/A	-	62,500	-
<u>N.C. Department of Environment and Natural Resources</u>					
Coastal Storm Damage			1,475,000	-	-
Total assistance			<u>\$ 1,719,032</u>	<u>\$ 95,112</u>	<u>\$ -</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

1 The schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Ocean Isle Beach and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.