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Certified Public Accountants

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Independent Auditor's Report

To the Honorable Mayor
and Members of the Town Commission
Emerald Isle, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Emerald Isle, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Managements' 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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

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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 presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Emerald Isle, North Carolina as of June 30, 2015, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund, and the Future Beach Nourishment Special Revenue Fund for the year then ended in conformity 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 the Management's Discussion on pages 21 through 33, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions on page 78 and 79, respectively, the Local Government Employees' Retirement System's Schedule of Proportionate Share of the Net Pension Asset and Contributions, on page 80 and 81, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability on page 82 be presented to supplement the basic financial statements. Such information, although not a 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 such 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 Town of Emerald Isle, North Carolina's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary

schedules, other schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules, 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. In our opinion, the combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2015, on our consideration of the Town of Emerald Isle, North Carolina'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 that 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Town of Emerald Isle, North Carolina's internal control over financial reporting and compliance.



Williams · Scarborough · Smith · Gray, LLP
New Bern, North Carolina
October 6, 2015

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Management Discussion and Analysis

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Nice Matters!

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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 Financial Statements

As management of the Town of Emerald Isle, North Carolina, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Emerald Isle for the fiscal year ended June 30, 2015. 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

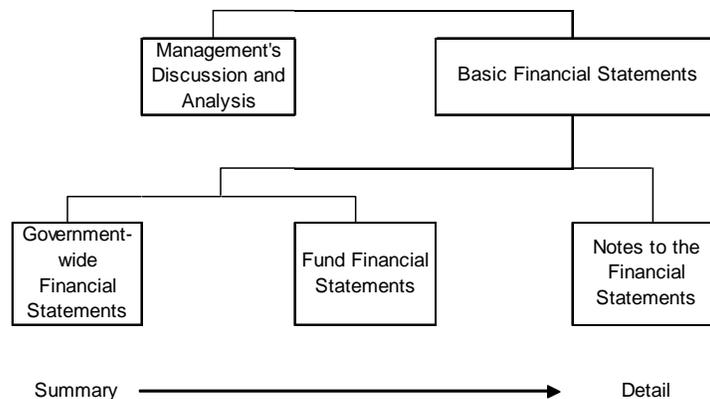
- The Town had \$2,697,635 of cash and cash equivalents on hand as of June 30, 2015. The Town also had net receivables of \$40,522 and \$290,737 of restricted cash and cash equivalents as of June 30, 2015. Additionally, a total of \$668,753 was due from other governments, which is primarily comprised of sales and utility taxes earned during the 4th quarter.
- The Town had total capital assets, net of depreciation of \$21,730,220 as of June 30, 2015. The bulk of these assets are land, buildings, and other improvements in the community. During FY 2015 the Town acquired two vacant lots and completed several capital construction projects, adding to our total net capital assets.
- The Town's total liabilities as of June 30, 2015 were \$4,186,988. Accounts payable and accrued liabilities represent \$288,801 of this amount, which included \$111,180 payable for the new construction of the Welcome Center project. A total of \$3,534,306 of this amount is the Town's outstanding debt as of June 30, 2015.
- The Town had an officially reported net position of \$21,003,943 as of June 30, 2015. Total net position increased by \$2,213,878. This is attributed to a significant increase in the net investment in capital assets, as well as the annual increase to the Future Beach Nourishment Fund, through the collection of special district property taxes held for the purpose of future beach renourishment.
- The Town had total revenues of \$9,984,762 across all funds during FY 2015, and issued \$86,077 of installment financing debt for the purchase of vacant land. The Town had total expenditures of \$10,072,152 across all funds during FY 2015, resulting in a minimal overall decrease in fund balance of \$1,313. The Future Beach Nourishment's fund balance increased by \$686,953 which is associated with reserve funds for future beach nourishment activities. Decreases in fund balance were anticipated in the General Fund, primarily due to the purchase of a vacant lot adjacent to the Town Administration building. Additional fund balances decreased in the non-major capital project funds due to the completion of several capital construction projects.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,420,934, a decrease of \$1,313 in comparison with the prior year. Although, the Future Beach Nourishment's fund balance increased by \$686,953, the sum of decreases in the Capital Project Funds and General Fund offset that increase, resulting in a slight decrease overall.

- The General Fund, the Town's primary annual operating fund, had total revenues of \$8,797,572 and total expenditures of \$8,377,091 during FY 2015. After transfers to other funds for capital projects (\$40,117) and for the Future Beach Nourishment Fund (\$450,000) the Town's General Fund balance decreased by \$69,637.
- As of June 30, 2015, the Town's General Fund had a total fund balance of \$2,080,608, of which a total of \$1,385,327 is classified as unassigned fund balance.
- The total General Fund balance of \$2,080,608 is equal to 23.5% of total General Fund expenditures during FY 2015 (\$8,867,508, including transfers out). This percentage is down from the previous year (25.9%), due to two key factors; 1) the approval to appropriate and spend a portion of fund balance for the purchase of a vacant lot adjacent to the Town Administration building, and 2) the FY 2015 budgeted transfer to the Future Beach Nourishment Fund, which results in increase in the transfer expense category. Total General Fund balance represents 23.4% percent of the FY 15-16 adopted budget of \$8,902,435 (including transfers out).
- The total unassigned General Fund balance amount of \$1,385,327 is equal to 15.6% of total General Fund expenditures during FY 2015 (\$8,867,508, including transfers out). Unassigned General Fund balance also represents 15.6% of the FY 15-16 adopted budget of \$8,902,434 (including transfers out).
- The Town's Future Beach Nourishment Fund had a year-end fund balance of \$1,391,580, as the Town collected another year of special district property taxes that are reserved for future beach nourishment activities.
- The Town's Total outstanding debt at June 30, 2015 is \$3,534,306. This includes three (3) existing installment purchase agreements, and the issuance of new debt of \$86,077 for the purchase of vacant land, as part of a capital project for the Public Boat Launching Facility. The Town's total outstanding debt is equal to approximately 0.12% of the Town's total assessed valuation at June 30, 2015, which remains a very low percentage.
- Finally, the Town established an interfund loan from the Future Beach Nourishment Fund to the Welcome Center Capital Project in the amount of \$276,000 for the construction of the new Welcome Center. The Welcome Center will be leased from the Town to the Carteret County Tourism Development Authority, and the monthly lease payments will be used to repay the interfund loan.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Emerald Isle'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. 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 Emerald Isle.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

The first statements in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town of Emerald Isle's financial status.

The next statements 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 fiduciary fund statements.

The next section of the basic financial statements is the Notes. The Notes to the financial statements explain in detail some of the data contained in those statements. After the Notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

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

The two government-wide statements report the Town's net 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 financial statements are Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The Town of Emerald Isle, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes and the Town's budget ordinance. All of the funds of the Town of Emerald Isle can be divided into two categories: governmental funds and fiduciary funds, as the Town does not utilize any proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. 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 services and 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 Emerald Isle adopts an annual budget as required by the North Carolina 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 of Commissioners about which services and programs 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 3 columns: 1) the official budget as adopted and amended by the Board of Commissioners, 2) the actual resources, charges to appropriations, and ending balances in the General Fund; and 3) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds - The Town of Emerald Isle does not utilize any proprietary funds. Public water is supplied by a separate public non-profit corporation for the Town's residents and property owners. The Town does not operate a sanitary sewer system, as all of the structures in Town are served by either private on-site wastewater (septic) systems or small package treatment plants that are maintained by property owner associations. Electricity is provided by a regional electric cooperative.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The Town utilizes two fiduciary funds, a pension trust fund and an agency fund.

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.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Emerald Isle's progress in funding its obligation to provide pension benefits to its employees.

Government-Wide Financial Analysis

The Town remains in a solid financial position for a local government unit of its size and complexity. Town management and the elected leadership of the Town have remained vigilant in monitoring financial issues, and have made a special effort to closely monitor revenue sources, minimize expenditures, and aggressively pursue outside grant funding and other contributions for new capital project initiatives.

Net Position

As noted in Figure 2 below, the Town had an officially reported net position of \$21,003,956 as of June 30, 2015. The Town's net position increased by \$2,213,891 for the fiscal year ended June 30, 2015, due primarily to a significant increase in the net investment of capital assets, as well as the collection of special district property taxes that are reserved for future, as-yet-unscheduled beach nourishment activities. The Town maintains the Future Beach Nourishment Fund to reserve funds for future activities, and added a total of \$686,953 to fund balance in this fund during FY 2015.

The Town's current assets (cash and cash equivalents, net receivables, due from other governments, and restricted cash) were \$3,697,660 as of June 30, 2015. This amount includes \$2,697,635 of unrestricted cash and cash equivalents across all Town funds, and an additional \$290,737 of restricted cash and cash equivalents, primarily attributable to capital projects still in progress at June 30, 2015. This amount also includes \$668,753 due from other governments, which is primarily the 4th quarter earnings of sales tax and utility tax distributions. Other assets include a net pension asset in the amount of \$291,747 for the Town's proportionate share of the Local Government Employees' Retirement System's net pension asset. The Town's capital assets total \$21,730,220, which is an increase of \$1,542,639 from the prior year, due primarily to the completion of several capital projects, and the purchase of vacant land.

The Town's total liabilities decreased by \$698,713 during FY 2015 to \$4,186,988. This decrease is evident from the repayment of principal on the Town's existing installment debt, and the completion of many of the capital projects during FY 2015, resulting in fewer open payables for construction at year end, as compared to the prior year.

Finally, the Town implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased net position by \$411,806. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Emerald Isle's management or commissioners. (It is important to note, in Figure 2, the Town's 2014 Net Position has been restated due to the accounting change and presented for comparative purposes, however data relative to deferred inflows of resources is not available for that period.)

Figure 2

	Governmental Activities	
	2015	2014
Current and other assets	\$ 3,989,394	\$ 3,899,991
Capital assets	21,730,220	20,187,581
Total assets	<u>25,719,614</u>	<u>24,087,572</u>
Deferred outflows of resources	191,000	189,681
Long-term liabilities outstanding	3,534,306	4,030,771
Other liabilities	652,682	1,456,417
Total liabilities	<u>4,186,988</u>	<u>5,487,188</u>
Deferred inflows of resources	719,683	-
Net position:		
Net investment in capital assets	18,195,914	16,156,810
Restricted	1,907,088	1,923,224
Unrestricted	900,941	710,031
Total net position	<u>\$ 21,003,943</u>	<u>\$ 18,790,065</u>

Changes in Net Position

As noted in Figure 3 below, the Town had total revenues of \$9,967,489 across all activities, and had total expenses of \$7,753,598 during the year ended June 30, 2015, resulting in an increase in the Town's net position of \$2,213,878. The Town's total FY 2015 revenues increased over FY 2014 primarily due increases in sales and utility tax distributions, as well as a capital grant from the NC Waterfront Access and Marine Industry Fund for the capital improvements to the Future New Ocean Fishing Pier (located at the Town's Eastern Ocean Regional Access). Expenses decreased slightly, and the increased sales and utility tax revenues, along with the capital grant allowed for additional investment in capital assets.

The increase in net position in FY 2015 is primarily associated with the investment in net capital assets through the completion of capital projects and purchases of vacant land. Additionally, the accumulation of reserve funds in the Future Beach Nourishment Fund increased the Town's overall Net Position, as there are no current expenses required for beach nourishment activities, and the Town added \$686,953 to the Fund from the collection of Primary Benefit District Taxes and the transfer from General Fund.

**Town of Emerald Isle's Changes in Net Position
Figure 3**

	Governmental Activities	
	2015	2014
Revenues:		
Program revenues:		
Charges for services	\$ 2,034,443	\$ 1,980,905
Operating grants and contributions	199,991	169,336
Capital grants and contributions	860,700	240,360
General revenues:		
Property taxes	4,442,231	4,437,811
Local option sales tax	1,668,520	1,469,530
Other taxes and licenses	594,313	344,135
Unrestricted grants and contributions	117,820	189,797
Unrestricted investment earnings	1,560	213
Miscellaneous	47,898	36,155
Total revenues	<u>9,967,476</u>	<u>8,868,242</u>
Expenses:		
General government	1,472,440	1,435,466
Public safety	3,244,183	3,275,447
Environmental protection	2,188,457	2,214,128
Cultural and recreation	774,486	1,108,279
Interest on long-term debt	74,032	42,924
Total expenses	<u>7,753,598</u>	<u>8,076,244</u>
Increase (decrease) in net position	2,213,878	791,998
Net position, beginning, as previously reported	-	18,409,873
Restatement for accounting change	-	(411,806)
Net position beginning, as restated	18,790,065	-
Net position, ending	<u>\$ 21,003,943</u>	<u>\$ 18,790,065</u>

Capital Assets

As of June 30, 2015, the Town of Emerald Isle's investment in capital assets totaled \$21,730,220, an increase of \$1,542,639 over the previous year. These assets include buildings, construction in progress, furniture and equipment, improvements, land, and vehicles.

The Town issued \$2.4 million of new installment debt for bicycle path and storm water projects in FY 2014, and these projects have now been completed in FY 2015. These projects represent the bulk of the increase in the Towns' capital assets. Also, the Town completed the capital improvements to the grant funded Future New Ocean Fishing Pier project in the amount of \$732,930.

**Town of Emerald Isle's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities	
	2015	2014
Land	\$ 11,689,811	\$ 11,364,946
Construction in progress	576,020	2,343,937
Buildings	2,322,553	2,387,456
Improvements	6,034,585	2,870,923
Furniture and equipment	264,595	255,072
Vehicles and motorized equipment	842,656	965,247
	<u>\$ 21,730,220</u>	<u>\$ 20,187,581</u>

Additional information on the Town's capital assets can be found in Note 3.A.4. of this report.

Long-Term Debt

As of June 30, 2015, the Town of Emerald Isle had total outstanding debt of \$3,534,306. This amount is comprised of four installment financing agreements as described below:

The Town issued \$1.4 million in installment debt during 2013 to refinance previous installment debts, and the remaining balance at June 30, 2015 was \$947,977. The Town issued \$2.4 million in installment debt in FY 2014 to fund bicycle path and storm water projects over a 9-year term with the first payment in FY 2015. The Town also issued \$455,000 for the purchase of a new Fire truck in FY 2014 over a 5-year term, with the first payment in FY 2015. During FY 2015 the Town issued \$86,077 in installment debt for the purchase of a vacant lot adjacent to the Public Boat Launching Facility over a 10-year term, with the first payment due in FY 2016. The annual interest rates for these debts are 1.59% for the 2013 refinancing, 2.17% for the bicycle path and storm water projects, 1.63% for the new Fire truck, and 0.82% for the vacant lot.

Town of Emerald Isle's Outstanding Debt

Figure 5

	Governmental Activities	
	2015	2014
Installment notes	\$ 3,534,306	\$ 4,030,771
	<u>\$ 3,534,306</u>	<u>\$ 4,030,771</u>

The Town's formal policy on debt limits the use of debt to real property purchases, major capital projects, and major equipment purchases (fire apparatus, heavy equipment, etc.), and the Town is fortunate to have a low debt level. The Town's total outstanding debt of \$3,534,306 is equal to 0.12% of the Town's total assessed valuation of approximately \$3.0 billion as of June 30, 2015. This debt ratio is extremely low, as NC General Statutes allow a local government to

issue debt up to 8.00% of the total assessed valuation, and local governments in NC with the greatest amount of debt are often in the 1.00% - 2.00% range. The Town's legal debt margin is in excess of \$237 million, a figure that the Town will never realistically approach.

Additional information regarding the Town's long-term debt can be found in Note 3.B.6. of this report.

Financial Analysis of Individual Funds

As noted earlier, the Town of Emerald Isle uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town utilizes several governmental funds, and the General Fund and Future Beach Nourishment Fund are the Town's most significant funds. The Town also utilizes governmental funds for dedicated special revenues and for various capital projects.

General Fund

The General Fund is the Town's primary operating fund, and had \$8,867,508 of total expenditures (\$8,377,091) and transfers out (\$490,417) in the year ending June 30, 2015. Total revenues were \$8,797,871, including a minimal transfer in from a capital project, resulting in a \$69,637 decrease in General Fund balance.

Property tax revenues continue to represent the Town's largest General Fund revenue source, at \$4,223,710, or approximately 48% of total revenues. Sales tax revenues remain the Town's second largest General Fund revenue source, with a total of \$1,668,520 representing 19% of total revenues. Solid waste service fees are the Town's third largest General Fund revenue source, at \$1,373,485 representing 15.6% of total revenues. Combined, these three revenue sources make up 82.6% of total General Fund revenues for the fiscal year ended June 30, 2015.

Public safety expenditures (Police, Fire, and EMS) continue to comprise the largest portion of the General Fund, at \$3,300,250, or approximately 37.2% of total General Fund expenditures and transfers out. Other notable expenditures include Solid Waste (\$1,349,199) and Parks and Recreation (\$866,999).

As of June 30, 2015, total General Fund balance is \$2,080,608, a slight decrease under the prior year's ending fund balance of \$2,150,245. The Town appropriated the use of available fund balance for \$150,000, among other minor appropriations, for the purchase of a vacant lot adjacent to the Town Administration building. With higher than anticipated sales and utilities tax distributions, fund balance was only actually reduced by \$69,637. The Town's total General Fund balance is equal to 23.5% of total General Fund expenditures (including transfers out) for FY 2015. This percentage is down from the previous year (25.9%), due to the reduction in fund balance, as well as the increase in transfers out for the Future Beach Nourishment Fund. It is important to note that beginning in FY 2015 the General Fund included a \$450,000 transfer to the Future Beach Nourishment Fund (special district property taxes were previously credited directly to that fund), which results in the appearance of a larger General Fund total expenditure and affects the fund balance % calculation. If the \$450,000 transfer is not factored in this calculation, the fund balance % would be 24.7%. Total General Fund balance represents 23.4% percent of the FY 2016 adopted budget of \$8,902,435 (including transfers out).

The total unassigned General Fund balance amount of \$1,385,327 is equal to 15.6% of total General Fund expenditures during FY 2015. Unassigned General Fund balance also represents 15.6% of the FY 2016 adopted budget of \$8,902,435 (including transfers out). The \$450,000 transfer to the Future Beach Nourishment Fund has the same impact on this fund balance % calculation as described above. These percentages are slightly lower than desired, however, the Town's total General Fund balance and unassigned General Fund balance levels generally continue to increase slightly each year, and the Town has never experienced any cash-flow difficulties in past years, even during periods

with significant hurricane impacts. Additionally, the Town has had and will likely continue to have significant fund balances in other Town funds (notably beach nourishment reserve funds) in the future that could be used to address any short-term cash-flow emergencies if necessary. Finally, the Town's elected officials have historically and continue to place a high priority on the proper balance between the Town's fund balance needs and respect for our taxpayers by not holding an excessive amount of their money in reserve.

Future Beach Nourishment Fund

FY 2015 was the fourth year of existence for the Future Beach Nourishment Fund, and this fund will continue to be utilized in the future to accumulate reserve funds for the Town's future beach nourishment projects. The Town's goal is to accumulate sufficient reserve funds over time in order to avoid the issuance of new debt for future projects.

The Future Beach Nourishment Fund had no expenses during the fiscal year, and at June 30, has a fund balance of \$1,391,580. During FY 2015, the Town's Commissioners authorized the use of an interfund loan between the Future Beach Nourishment Fund and the Welcome Center Capital Project Fund in the amount of \$276,000 to finance the construction of the new Welcome Center. The interfund loan will be repaid to the Future Beach Nourishment Fund over a period of ten years, including interest at the Federal Funds Rate plus 0.50%. Ultimately, this interfund loan will be financed by the Carteret County Tourism Development Authority, who will lease the new building from the Town for a period of ten years.

Other Funds

The Town utilized several other funds during the fiscal year ended June 30, 2015, most of which are capital project funds established to segregate revenues and expenditures associated with these projects over multiple fiscal years.

The capital project fund, which is also a major fund for FY 2015, is the Welcome Center capital project. It was created for the purpose of constructing the new Welcome Center for use by the Carteret County Tourism Development Authority (TDA). The building is to be complete by the end of August, 2015, and will be leased by the TDA from the Town.

The Town began significant bicycle path and storm water projects in FY 2014, and used several capital project accounts for these projects. Several of these projects continued into FY 2015 and were subsequently completed. The following are a listing of the non-major capital projects which were among those finalized during FY 2015:

- the Eastern EI Stormwater Outfall capital project fund
- the Island Circle Stormwater Connection capital project fund
- the Lands End Stormwater Connection capital project fund
- the Public Boat Launching Facility capital project fund
- the NC 58 Bicycle Path Extension – EORA to Indian Beach capital project fund
- the NC 58 Bicycle Path Extension – Fairfax – Ocean Drive capital project fund
- the Coast Guard Road Multi-Use Path capital project fund

Other active capital project funds utilized by the Town during FY 2015 include:

- the Future New Ocean Fishing Pier capital project fund was established for the capital improvements to the parking lot and stormwater management system at the Eastern Ocean Regional Access. The project was funded by the NC Waterfront Access and Marine Industry Fund grant and is complete as of year end.

- the Senator Jean Preston Memorial Playground capital project fund was created for the construction of a playground to honor the legacy of the late Senator Preston. The playground will be located immediately adjacent to the Emerald Isle Public Boating Access Area, and will be primarily funded by contributions and grants.
- the Bicycle and Pedestrian capital project fund was created following the completion of the Coast Guard Road Multi-Use Path project. The project has a fund balance of \$84,405, as of June 30, 2015. The fund will be primarily used to account for fundraising proceeds and related path capital improvements funded by these proceeds as recommended by the Bicycle and Pedestrian Advisory Committee and authorized by the Board of Commissioners. During FY 2015, the fund constructed new paving at the El Woods Park in the amount of \$45,450. Additional capital construction is planned during FY 2016, such as the installation of decorative lights along the path in the downtown area.
- the Coast Guard Road Bicycle Path Extension capital project fund was utilized for this 1.1 mile path extension that was primarily financed by \$373,000 from the Town's \$2.4 million installment debt during FY 2014. This project was not fully complete at June 30, 2015, and had a total fund balance of \$44,168.

The Town also utilizes the Special Drug Fund to account for restricted Police revenues and expenditures for Police equipment. The Special Drug Fund has a total fund balance of \$1,165 as of June 30, 2015, and these restricted funds will be used for eligible Police equipment in future fiscal years.

The Town established the Half-Marathon Fund in FY 2014. This fund was established to account for revenues and expenditures associated with an annual road race organized by a volunteer committee and held in March each year. Total fund revenues were used for race expenditures and excess race proceeds were distributed to the Bicycle and Pedestrian capital project fund, as well as charitable organizations, as determined by the volunteer race committee.

The Town also utilizes a Pension Trust Fund to reserve funds for future special separation allowance payments to certain retiring Police Officers. The Town has accumulated a fund balance of \$63,755 for the purpose of paying these benefits as authorized under Article 12D of NC General Statutes Chapter 143. As of FY 2015, the Town has one retired officer participating in plan. During FY 2015 no additional contributions were made to the fund, and payments to the participating officer were made from the General Fund. Future contributions to the fund or transfers from the fund for the purpose of making payments to additional participants will be budgeted for annually.

FY 2015 Budget Administration

The Board of Commissioners adopted the FY 2015 budget in June 2014 after a thoughtful and analytical review process over the previous several months.

The total adopted FY 2015 budget for both the General and Future Beach Nourishment Funds was \$9,136,115, which represented a \$174,646, or 1.9% increase over the adopted FY 2014 budget for all funds. The FY 2015 adopted budget relied on a General Fund property tax rate of 14.0 cents (a 1.5-cent increase from FY 2014 rate due solely to the incorporation of 1.5 cents of beach nourishment district tax rates into General Fund rate, resulting in no net increase in any property tax bill) and Future Beach Nourishment Fund tax rates of 3.0 cents (oceanfront and inlet-front properties), a 1.5 cent decrease from FY 2014 rate, now incorporated into General Fund tax rate.

The adopted FY 2015 budget included a total General Fund budget of \$8,454,128, a \$169,889, or 2.05% increase over the adopted FY 2014 budget. Overall increases to the FY 2015 budget include the inclusion of debt service payments for the Fire Truck, a 2% cost of living adjustment for Town employees, and additions to the information technology

services agreement. During the course of FY 2015, the General Fund budget was amended several times, resulting in an amended FY 2015 budget of \$9,004,810.

In addition to several budget amendments in various Town department budgets, the most significant amendments increased the General Fund budget by \$150,000 for the purchase of a vacant lot adjacent to the Town Administration building; an \$86,032 appropriation for street resurfacing; \$40,417 in transfers to finalize capital projects; an additional \$30,664 for expenditures related to yard debris removal; and \$23,630 for the appropriation of police and recreation grant funding for the purchase of small capital equipment.

Several special and capital project funds were also established and/or amended during FY 2015, including the Half Marathon Fund; the creation of the Bicycle and Pedestrian Fund; the establishment of the Senator Jean Preston Memorial Playground Project Fund; and the creation of the New Welcome Center Capital Project Fund.

The Fiscal Year Ahead - FY 2016 Budget Highlights

The Town's FY 2016 adopted budget totals \$9,574,939 for both the General and Future Beach Nourishment Funds, a \$438,824, or 4.8% increase from the originally adopted FY 2015 budget. The FY 2016 adopted budget maintains the Town's high service levels and quality, while also maintaining an overall revenue-neutral tax rate(s). The FY 2016 adopted budget included the new property valuations from Carteret County, with a overall property valuation decrease of nearly 10%.

The FY 2016 budget includes a 15.5 cent tax rate for the General Fund, for all property owners, and a 4.0 cent rate for the Primary Benefit (Oceanfront/Inlet-front) District. The revenue-neutral rate for the General Fund was calculated at 15.61 cents, slightly higher than the adopted rate, and the Primary Benefit District revenue-neutral rate was calculated at 3.42 cents, slight lower than the adopted rate. However, the overall Town tax revenue for both the General Fund and the Future Beach Nourishment Fund equated to the same property tax revenue in both accounts, as the prior year. As it was adopted in FY 2014, the General Fund rate included 1.5 cents dedicated for beach renourishment, and this calculation derived an adopted \$400,000 budgeted transfer from the General Fund to the Future Beach Nourishment Fund. The total adopted budget for the Future Beach Nourishment Fund was \$672,504 for FY 2016. The FY 2016 budget did increase the annual solid waste fee from \$210 per residential unit to \$228 per year, an \$18 per year increase. This increased the budgeted solid waste fee revenue by 8.81% over the prior year, or \$120,775.

The Town's adopted FY 2016 General Fund budget is \$8,902,435, which equates to a \$448,307 increase (or 5.3%) over the adopted FY 2015 General Fund budget. This total includes the \$400,000 transfer to the Future Beach Nourishment Fund as mentioned above. The most substantial increases to total revenue are derived from three areas: solid waste fees; sales and use tax distributions; and utility sales tax distributions. In addition to the \$120,775 increase from solid waste fees, sales and use tax distributions were very strong in FY 2015, and statewide are expected to grow 4% over the actual FY 2015 distributions due to tax law changes and a stronger economy. The FY 2016 budget included a \$210,800 increase over the 2015 budget for the sales and use tax line item. Likewise, in FY 2015 we experienced a significant increase in distributions for electricity sales tax, due to changes in State law on the collection and distribution of the tax. We anticipate an increase of \$110,310 in state-collected revenues (utility sales tax) over the adopted FY 2015 budget.

The adopted FY 2016 General Fund budget anticipates a total of \$4,206,241 of property tax revenues, \$1,762,800 of sales tax revenues, and \$1,491,400 of annual solid waste fee revenues. Combined, these 3 revenue sources represent nearly 84% of General Fund revenues. On the expenditure side, public safety (Police, Fire, and EMS) and solid waste expenses represent nearly 38% of General Fund expenditures. The FY 2016 budget invests appropriately in the Town's workforce, provides additional funding in key areas to enhance services and staff efficiency, provides sufficient funding

to maintain Town infrastructure, and provides sufficient funding to maintain a dependable, attractive, and efficient vehicle fleet. The adopted FY 2016 General Fund budget is structurally sound, and the Town does not anticipate any unmanageable budget deficits in the coming years. The FY 2016 budget includes approximately \$168,500 in capital and expenses for additional yard debris demand; a 2% cost of living adjustment for Town employees; and the new interfund loan repayments for the Welcome Center.

The adopted FY 2016 budget for the Future Beach Nourishment Fund includes the anticipated receipt of \$270,043 of special district property taxes from oceanfront and inlet-front property owners, and also a \$400,000 transfer from the General Fund that will be reserved for future, undetermined beach nourishment projects. The Town now levies only a separate 4-cent property tax rate on all oceanfront and inlet-front properties. Finally, the FY 2016 adopted budget again includes a \$16,793 appropriation from the Separation Allowance Fund to be transferred to the General Fund for the Town's payments to a retired law enforcement officer, and the actual use of these funds will be dependent on overall budget performance during FY 2016.

Economic and Other Factors Affecting the Town's Future Financial Position

The local economy continues to be fueled by the tourism, construction, and real estate industries, and also by the accumulated wealth of our many retirees and second home owners. As the regional and national economies continue to rebound, the outlook for each of these industries continues to improve. Thus, the Town's overall economic outlook remains very positive, and the Town is poised to maintain its solid financial position.

The tourism industry (in Emerald Isle and Carteret County as a whole) has the greatest direct impact on the Town's budget and financial position, as it directly affects sales tax revenues – the Town's second largest revenue source. The construction industry also has direct impact on the Town's budget and financial position, as it directly affects the Town's sales tax revenues, building permit revenues, and additions to the Town's tax base. Due to the Town's relatively large total taxable value (approximately \$3.0 billion for the 2014 tax year), the annual amount of new construction represents a relatively small percentage of the Town's overall tax base and thus fluctuations from year to year have minimal impact on the Town's property tax revenues. The Town's property tax revenues are expected to remain stable and reliable in the future, and the Town works hard to minimize the need for any property tax rate increases. Because new taxable values are assigned by the County every 4 years, the Town's total taxable value does not fluctuate significantly from year to year, and as a result, property tax revenues remain relatively stable. As a result, the health of the real estate industry generally does not have direct impacts on the Town's financial position; instead these impacts are indirect in nature as those who are dependent on this industry have more or less disposable income to invest in new construction, retail items, etc.

Emerald Isle and Carteret County continue to be a desirable and relatively affordable place for family vacations. Carteret County levies a 6% room occupancy tax on all short-term accommodations in the County, including Emerald Isle, and research indicates that Emerald Isle alone represents approximately 63% of all room occupancy tax revenues in Carteret County. The Town does not receive any revenue from room occupancy taxes levied in Emerald Isle, as these revenues revert to Carteret County and are reserved for tourism promotion and beach nourishment activities that ultimately benefit Emerald Isle. The room occupancy tax figures are useful, however, for gauging the strength of the local tourism industry. Room occupancy tax collections had declined to \$4.22 million in FY 09-10 during the worst impacts of the recession from a peak of \$4.76 million in FY 07-08, but have now fully recovered. Room occupancy tax collections for FY 2015 were \$6.35 million, the highest total in history. Several local businesses have indicated that the 2015 season was their best ever, and we continue to look forward to the future with optimism.

Sales tax revenues, although distributed to the Town via a complicated formula that is based on State-wide sales tax collections, relative population changes, local sales tax collections, and local property tax levies, can also be a helpful

indicator of the local economy. Sales Tax revenues have increased annually since FY 2013, and were much higher than anticipated in FY 2015 due to changes in State sales tax law, as well as growth in spending (both locally and state-wide). During FY 2015 sales tax collections were nearly \$1.7 million, significantly more than originally projected in the adopted FY 2015 budget (\$1.55 million) and actually received in FY 2014 (\$1.47 million). A comparison of the Town's recent monthly sales tax revenues (on a year-over-year basis) indicates annual growth of 13.5%. A review of overall "point-of-sale" (Article 39) sales tax collections within all of Carteret County, which is a more relevant gauge of the local economy (Article 39 does not factor in the formulas used to distribute sales tax revenues among the County and municipalities), indicates a nearly 5.7% increase in sales tax collections within Carteret County annually. This trend is encouraging, and is believed to reflect continuing improvement in the local economy, including the tourism-based segments.

The local construction industry remains below historical averages, and this is likely due to the fact that new construction is among the last segments of the economy to fully recover after a recession. There are some encouraging signs, however, and we hope to realize continued growth in the local construction industry in the next few years. The total value of new construction in the Town in FY 2015 was approximately \$15.4 million, which was a decrease of approximately \$693,000 from the prior year. However, this is still significantly higher than the FY 2010 amount of \$8.9 million (the least amount in recent memory). The Town permitted a total of 25 new residential structures in FY 2015, compared with 24 new residential structures in FY 2014 and 14 new residential structures in FY 2010. As noted earlier, this slight variation does not have a significant impact on the Town budget due to the fact that new construction results in very little additional property tax revenue due to the Town's relatively high total assessed value and very low property tax rate. With regard to Town building permit revenues, the annual revenues have steadily increased through FY 2014 over the FY 2010 amount of approximately \$107,000. Permit fees overall were slightly lower for FY 2015 at \$144,000, however the Town remains hopeful that FY 2016 will include additional modest growth in construction activity and building permit revenues. Over the long-term, construction activity is expected to return to normal annual activity levels, as there remains a sufficient quantity of vacant lots to accommodate the construction industry for several decades. Prior to the boom in the mid-2000s, the Town typically experienced approximately 50 - 60 new homes constructed annually with a total annual value of approximately \$20 - \$25 million.

Real estate values have decreased significantly since the boom of the mid-2000s. The Town's total assessed value was more than \$4.2 billion in the 2007 tax revaluation (at the height of the boom), and decreased to slightly less than \$3 billion in the 2011 tax revaluation. Carteret County released the 2015 tax revaluation, and the Town experienced about a 10% overall decrease in property tax values to approximately \$2.7 billion. We believe, however, that we have seen the end of decreasing values and look forward to modest appreciation in the coming years. The most established real estate firms and agents in Emerald Isle have survived the slowdown in the real estate market, and we continue to experience modest improvement in the local real estate market. The Town's financial position is not directly impacted by the local real estate market, as taxable values are assigned by Carteret County for a 4-year period. As the Town has historically adopted "revenue-neutral" tax rates following previous tax revaluations, the commissioners have again adopted a "revenue-neutral" tax rate for FY 2016. Over the long-term, property tax revenues are expected to be the Town's most stable revenue source, with continued minor growth in the overall tax base as a result of the Town's desirable location.

Emerald Isle is the permanent home and a part-time residence for many retirees, and a portion of the local economy is fueled by the accumulated wealth of this group. As the market continues to experience significant growth, the investment earnings of this group increase, providing more disposable income for retail activity in the local economy. With the leading market indices at all time highs, this also bodes well for the Town's budget and financial position.

The public demand for coastal living and vacation experiences remains strong, and “the beach” remains Americans’ favorite vacation destination. The Town has invested appropriately in its most important asset, the beach, with a strong commitment to beach nourishment. The Town continues to engage in future project planning efforts to promote the aesthetic, recreational, and storm protection values of the beach strand, and has also implemented specific dedicated funding sources to reserve funds for future nourishment activities. The Town remains committed to the small-town, family beach atmosphere that is at the core of its success, and implements various controls and programs to promote and reinforce these values. The Town also continues efforts to improve our residents’ quality of life and to maintain our competitiveness against other beach communities by adding new community amenities specifically intended to complement the beach experience. The Town has worked hard in recent years to add a major public boating access facility, expand our popular bicycle path network, offer additional ocean and sound side parks and amenities, maintain attractive public areas, and offer and promote community events. The Town’s capital investment decisions have and will continue to reflect deliberate and calculated efforts to enhance the quality of life for our residents and visitors and maintain and enhance Emerald Isle’s competitiveness as a tourism and retirement destination.

In summary, the Town has maintained a solid financial position over the past decade, and is poised to maintain that solid financial position over the next decade and beyond. The Town budget is structurally sound, and the Town utilizes prudent financial management policies. Its major industries (tourism, construction, and real estate) are all now stable and trending up, and this bodes well for the Town’s future budget and financial position. In the long term, the desirability of Emerald Isle, the high demand for coastal living and vacation experiences, the continuation of sound financial management policies, and strategic capital investment to enhance the Town’s competitiveness should result in stable tourism, construction, and real estate industries. Thus, the Town’s overall long-term financial outlook remains very positive.

Finally, the lone drawback to living in a highly desirable coastal location like Emerald Isle is the ever-present threat of a major hurricane. Widespread damage caused by a major hurricane could potentially result in dramatic reductions in the Town’s total taxable value and temporarily harm the tourism economy. Fortunately, none of the many hurricanes that have affected the Town since the mid-1990s have affected the Town’s financial position in a significant manner, and in some instances these hurricane events have actually resulted in positive economic impacts. The Town is well-prepared for future hurricanes and investments in such initiatives as beach nourishment, building code enforcement, and flood prevention ordinance enforcement should help to mitigate future hurricane damages that could negatively affect the Town’s financial position. The Town maintains suitable fund balances and has adequate cash on hand to address any short-term hurricane-related expenses, and has emerged from all previous hurricanes with minimal impact on the Town’s financial position.

Requests for Information

This report is designed to provide an overview of the Town of Emerald Isle’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 Frank A. Rush, Jr. Town Manager (frush@emeraldisle-nc.org) or Laura Rotchford, Finance Director (lrotchford@emeraldisle-nc.org) at 252-354-3424 or the email addresses listed. Additional information about the Town’s activities is available at our website, www.emeraldisle-nc.org.