

**Town of Emerald Isle,
North Carolina**

Financial Report

For The Fiscal Year Ended June 30, 2011

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June 30, 2011**

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FINANCIAL SECTION

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WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

To the Honorable Mayor
And Members of the Town Council
Emerald Isle, North Carolina

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Emerald Isle's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the 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, 2011, and the respective changes in financial position, and cash flows where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 14, 2011 on our consideration of Town of Emerald Isle's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of the report is to describe the scope of our testing of internal control over financial and compliance and the results of that testing, and is not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages 11 through 22 and 57 and 58, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Emerald Isle, North Carolina. The combining, and the individual fund financial statements, budgetary schedules and other schedules as required by U.S. 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 and other schedules, and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Williams Scarborough Smith Gray, LLP

Williams · Scarborough · Smith · Gray, LLP
October 14, 2011

Management Discussion and Analysis

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Town of Emerald Isle

Mayor
Arthur B. Schools, Jr.

Mayor Pro-Tem
Floyd Messer, Jr.

Board of Commissioners
Nita Hedreen
Tom Hoover, Jr.
John Wootten
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MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2011 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, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The Town had \$3,691,408 of cash and cash equivalents on hand as of June 30, 2011. The Town also had net receivables of \$911,686 as of June 30, 2011.
- The Town had total capital assets of \$17,320,073 as of June 30, 2011. The bulk of these assets are land, buildings, and other improvements in the community.
- The Town's total liabilities as of June 30, 2011 were \$4,440,634, with \$1,900,000 of this total in the form of outstanding General Obligation Bonds issued to finance the Town's 2005 beach nourishment project.
- The Town had officially reported net assets of \$17,482,533 as of June 30, 2011. Total net assets increased by \$3,310,126 over the prior year due primarily to the retirement of additional outstanding General Obligation Bonds issued to finance the Town's beach nourishment projects and due to the acquisition of land for a new public boat launch facility with significant outside grant funding.
- The Town had total revenues of \$10,655,096 across all funds during FY 10-11. The Town had total expenditures of \$10,240,425 across all funds during FY 10-11. This resulted in a net surplus for the fiscal year of \$414,671.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$4,360,851, an increase of \$414,671 in comparison with the prior year. This increase is primarily associated with timing issues for funded but not-yet-completed capital projects.
- The General Fund, the Town's primary annual operating fund, had total revenues of \$7,646,646, and total expenditures of \$7,130,620 during FY 10-11. After considering transfers to (\$31) and from the General Fund (\$432,500) for capital projects, the Town added \$83,557 to General Fund balance as of June 30, 2011.
- As of June 30, 2011, the Town's General Fund had a total fund balance of \$1,895,164, of which a total of \$981,088 is classified as unassigned fund balance.
- The total General Fund balance of \$1,895,164 is equal to 25.1% of total General Fund expenditures (including transfers out and Powell Bill) during FY 10-11 (\$7,563,120). This percentage is up just

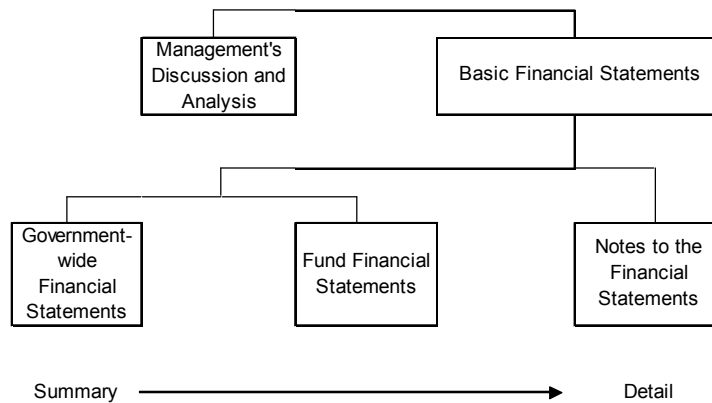
slightly from the previous year (25.0%). Total General Fund balance represents 27.3% percent of the FY 11-12 adopted budget of \$6,932,097 (including transfers out and Powell Bill).

- The total unassigned General Fund balance amount of \$981,088 is equal to 13.0% of total General Fund expenditures (including transfers out and Powell Bill) during FY 10-11 (\$7,563,120). Unassigned General Fund balance represents 14.2% of the FY 11-12 adopted budget of \$6,932,097 (including transfers out and Powell Bill). These percentages are slightly lower than desired, but it is also important to note that the June 30, 2011 financial statements reflect an increase in accounts receivable of \$312,254 over the June 30, 2010 amount. The bulk of this amount was received by the Town shortly after June 30, 2011.
- The Town's Beach Nourishment Debt Service Fund had a year-ending fund balance of \$2,081,929.
- The Town's Total outstanding debt at June 30, 2011 is \$3,599,733, most of which consists of outstanding beach nourishment bonds (\$1,900,000) that will be fully retired by FY 12-13. The Town's total outstanding debt of \$3,599,733 is equal to approximately 0.08% of the Town's total assessed valuation at June 30, 2011, a very low percentage.

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 two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison 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 government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

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 are governmental 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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of 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 4 columns: 1) the original budget adopted by the Board of Commissioners, 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 - 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.

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

Despite the recent prolonged recession, 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 during the recession, and have made a special effort to closely monitor decreasing revenue sources, adjust and minimize expenditures, and aggressively pursue outside grant funding and other contributions for new capital project initiatives.

Net Assets

As noted in Figure 2 below, the Town had officially reported net assets of \$17,482,533 as of June 30, 2011. The Town's net assets increased by \$3,310,126 for the fiscal year ended June 30, 2011, due primarily to the retirement of \$2,125,000 of General Obligation Bonds associated with the Town's beach nourishment projects, and also due to the acquisition of land for a new public boat launching facility with significant outside grant funding. The Town acquired \$608,076 worth of land for the new facility during FY 10-11, and this land was funded primarily by outside grants and contributions.

The Town's current assets (cash and cash equivalents, plus net receivables) were \$4,603,094 as of June 30, 2011. This amount increased by \$701,836 from the prior year, due primarily to the appropriation of current funds for a future storm water project that has not yet been completed as of June 30, 2011, also due to the slightly delayed reimbursement of EMS funds and Fire grant revenues that did not occur prior to June 30, 2011, and a slight increase in General Fund balance. Capital assets increased by \$484,023 over the prior year to a new total of \$17,320,073, and the bulk of this increase is associated with an additional land purchase for the new public boat launch facility. This increase is offset by the continued depreciation of other buildings and equipment.

The Town's total liabilities decreased by \$1,957,152 during FY 10-11 to \$4,440,634. This overall decrease is primarily associated with an additional General Obligation Bond payment of \$2,125,000 for the Town's previous beach nourishment projects.

Town of Emerald Isle Net Assets

Figure 2

	Governmental Activities	
	2011	2010
Current and other assets	\$ 4,603,094	\$ 3,824,143
Capital assets	17,320,073	16,836,050
Total assets	<u>21,923,167</u>	<u>20,660,193</u>
Long-term liabilities outstanding	3,599,734	5,940,187
Other liabilities	840,900	457,599
Total liabilities	<u>4,440,634</u>	<u>6,397,786</u>
Net assets:		
Invested in capital assets, net of related debt	13,450,777	10,895,863
Restricted	914,076	12,807
Unrestricted	3,117,680	3,263,737
Total net assets	<u>\$ 17,482,533</u>	<u>\$ 14,172,407</u>

Revenues and Expenditures, Fund Balance

As noted in Figure 3 below, the Town had total revenues of \$10,655,096 across all Town funds, and had total expenditures of \$10,240,425 during the year ended June 30, 2011, resulting in a total FY 10-11 surplus of \$414,671. Of this surplus amount, a total of \$83,557 is "true" surplus in the General Fund, and has been added to General Fund balance. The remaining surplus of \$331,114 is associated with timing issues associated with various capital projects that have been funded but not-yet-completed as of June 30, 2011.

The Town maintains total fund balances across all funds of \$4,360,851 as of June 30, 2011. This total fund balance amount includes a total of \$1,895,164 in General Fund balance and \$2,081,929 in Beach

Nourishment Debt Service Fund balance, plus relatively minor balances in various capital project funds. The Town's total fund balances are equal to 42.6% of all Town expenditures across all funds during FY 10-11.

Town of Emerald Isle
Revenues and Expenditures - Total of All Governmental Funds
Figure 3

	Total of All Governmental Funds 2011
Revenues:	
Ad valorem taxes	\$ 5,654,506
Other taxes and licenses	14,001
Unrestricted intergovernmental	2,087,501
Restricted intergovernmental	1,013,493
Permits and fees	1,456,219
Sales and services	139,622
Investment earnings	20,941
Miscellaneous	268,813
Total revenues	10,655,096
Expenditures:	
General government	1,134,539
Public safety	3,077,051
Cultural and recreation	699,922
Environmental protection	1,858,539
Economic development	852,220
Debt service	2,618,154
Total expenditures	10,240,425
Excess (deficiency) of revenues over expenditures	414,671
Net change in fund balance	414,671
Fund balances - beginning	3,946,180
Fund balances - ending	4,360,851

Long-Term Debt

As of June 30, 2011, the Town of Emerald Isle had total outstanding debt of \$3,599,733. Of this amount a total of \$1,900,000 is in the form of General Obligation Bonds issued to finance the Town's 2005 beach nourishment project. The remaining \$1,699,733 is in the form of installment financing agreements for three recent capital projects.

Outstanding Debt
Figure 4

	Governmental Activities	
	2011	2010
General obligation bonds	\$ 1,900,000	\$ 4,025,000
Installment financing	1,699,733	2,275,187
	\$ 3,599,733	\$ 6,300,187

The Town made scheduled principal and interest payments on the General Obligation Bonds for beach nourishment in August 2010 and February 2011. The Town remitted \$2,125,000 of principal payments, and \$120,750 of interest payments. These bond payments are financed primarily by special district property taxes established for this purpose, and these revenues and expenses are accounted for in the

Beach Nourishment Debt Service Fund. The Town is scheduled to make a \$950,000 principal payment in both FY 11-12 and FY 12-13, at which time the bonds will be fully retired.

As of June 30, 2011, the Town has 3 outstanding installment financing agreements, and the remaining balance of each is outlined in Figure 5 below.

Outstanding Installment Financing Debt
Figure 5

	As of June 30, 2011
2008 Land purchase - Emerald Drive	\$ 390,000
2008 Storm water improvements	586,015
2008 Town administration building	723,718
	\$ 1,699,733

The 3 outstanding installment financing agreements have various terms, and will all be fully retired by FY 18-19.

In addition, the Town has an outstanding inter-fund loan from the Beach Nourishment Debt Service Fund to the General Fund that was utilized for a portion of the Town's share of the land acquisition cost for the new public boat launching facility. The original amount of the inter-fund loan was \$360,000, and as of June 30, 2011, the remaining balance is \$270,000. This inter-fund loan will be fully retired in FY 13-14. This inter-fund loan is not technically included in the Town's formal debt calculations, however, it does represent an outstanding long-term liability of the Town's General Fund and should be considered by the reader.

The Town did not issue any new General Obligation bond or installment financing debt in FY 10-11, and scheduled principal payments reduced the Town's total outstanding debt significantly.

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 low debt levels. The Town's total outstanding debt of \$3,599,733 is equal to 0.08% of the Town's total assessed valuation of more than \$4.2 billion as of June 30, 2011. 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 \$339 million, a figure that the Town will never realistically approach.

The reader should note that the Town and Carteret County implemented a tax revaluation for FY 11-12, and the Town's total assessed value has been reduced to slightly more than \$2.98 billion, which adjusts the Town's debt percentage to .12%. This debt ratio is still extremely low.

The Town maintains a AA rating from Standard & Poor's and an A2 rating from Moody's Investors Service. These excellent bond ratings are clear indications of the sound financial condition of the Town of Emerald Isle, and the Town is pleased to carry such a high rating from these institutions.

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 the Beach Nourishment Debt Service Fund are the Town's most significant funds. The Town also utilizes governmental funds for disaster-related expenses and reimbursements, and for various capital projects.

General Fund

The General Fund is the Town's primary operating fund, and had \$7,563,120 of total expenditures and transfers out in the year ending June 30, 2011. Total revenues, including a very minor transfer in, were \$7,646,677.

Property tax revenues continue to represent the Town's largest General Fund revenue source, at \$3,418,108, or approximately 44.7% of total revenues. Sales tax revenues remain the Town's second largest General Fund revenue source, with a total of \$1,568,508, representing 20.5% of total revenues. Solid waste service fees are the Town's third largest General Fund revenue source, and were \$1,163,381, representing 15.2% of total revenues. Combined, these three revenue sources make up more than 80.4% of total General Fund revenues for the year ended June 30, 2011.

Public safety expenditures (Police, Fire, and EMS) continue to comprise the largest portion of the General Fund, at \$3,077,051, or approximately 40.7% of total General Fund expenditures and transfers out. Other notable expenditures include Solid Waste (\$1,189,138), and Debt Service (\$372,404). Debt Service expenditures for the year ended June 30, 2011 are equal to 4.9% of total General Fund expenditures, a very low percentage.

As of June 30, 2011, total General Fund balance is \$1,895,164, a slight increase from the prior year's ending fund balance of \$1,811,607. The Town added \$83,557 to General Fund balance in FY 10-11, due primarily to higher than anticipated revenue collections. The Town's total General Fund balance is equal to 25.1% of total General Fund expenditures (including transfers out and Powell Bill) during FY 10-11. This percentage is up slightly from the previous year (25.0%). Total General Fund balance represents 27.3% percent of the FY 11-12 adopted budget of \$6,932,097 (including transfers out and Powell Bill).

The unassigned General Fund balance amount of \$981,088 is equal to 13.0% of total General Fund expenditures (including transfers out and Powell Bill) during FY 10-11. Unassigned General Fund balance represents 14.2% of the FY 11-12 adopted budget of \$6,932,097 (including transfers out and Powell Bill). These percentages are slightly lower than desired, but it is also important to note that the June 30, 2011 financial statements reflect an increase in accounts receivable of \$312,254 over the June 30, 2010 amount. The bulk of this amount was received by the Town shortly after June 30, 2011, and if included in unassigned General Fund balance the percentage would increase to recent historical levels. From a cash-flow standpoint, it is important for the reader to understand that the Town also maintains more than \$2.08 million of unassigned fund balance in the Beach Nourishment Debt Service Fund that could be made available on a short-term emergency basis and reimbursed if needed. To date, the Town has never had to utilize this approach, and does not expect to do so, however, it is available if needed if a situation with diminished General Fund cash-flow arises in the future.

The Town's official policy calls for the Town to maintain total General Fund balance at an amount equal to 25% of General Fund expenditures. As noted, the Town remains slightly above this target. The Town's long-term goal is to eventually approach a 50% fund balance level, however, the recent prolonged recession has made it difficult to move closer to this goal in recent years.

Beach Nourishment Debt Service Fund

The Town's other large governmental fund is the Beach Nourishment Debt Service Fund. For the year ended June 30, 2011, this fund had total expenditures of \$2,257,585. Total revenues, primarily from special district property taxes, were \$2,247,763, and were supplemented by the use of \$9,822 of fund balance.

At June 30, 2011, this fund had a total fund balance of \$2,081,929, all of which is classified as unassigned fund balance, but is actually intended for future debt service payments in FY 11-12 and FY 12-13. These payments are the final bond payments associated with the Town's 2005 beach nourishment project, and there are currently sufficient funds in the Beach Nourishment Debt Service Fund to fully retire the outstanding bonds.

This fund is currently projected to have an ending fund balance in excess of \$100,000 after all bonds are retired in FY 12-13, and any remaining fund balance will be transferred to the Town's new Future Beach Nourishment Fund (established in FY 11-12) for future beach nourishment efforts. The new Future Beach Nourishment Fund will be utilized to accumulate significant special district tax revenues to fund the Town's future beach nourishment projects, and will hopefully enable the Town to avoid the issuance of new debt for future projects.

Other Funds

The Town utilized several other funds during the fiscal year ended June 30, 2011, most of which are capital project funds established to segregate revenues and expenditures associated with these projects over multiple fiscal years.

The most significant of these funds is the Public Boat Launching Facility Capital Project Fund established to account for land acquisition expenses, grants, and other contributions. As of June 30, 2011, the Town had completed the acquisition of 6 of the 7 lots necessary for this project, and had realized \$3,167,026 of total grant revenues for the project. The remaining Town expenditures associated with the project occurred shortly after June 30, 2011, and were funded primarily with previously awarded grant funds. The project is now complete, and the Town has no remaining Town-funded obligations for this project.

The Town's other significant capital project fund is the Coast Guard Road Storm Water Phase IV project fund. This fund was established to account for the construction of an emergency discharge at the Town's Emerald Isle Woods storm water receiving site and also the construction of storm water improvements in The Point neighborhood. A one-time \$375,000 transfer from the General Fund to this project fund was made in FY 10-11. As of June 30, 2011, total expenditures and transfers out of this fund were \$120,530, leaving a fund balance of \$254,470 as of June 30, 2011. This entire amount is expected to be expended in FY 11-12 to complete the construction of the planned improvements.

The Town utilizes ongoing capital project funds for several other smaller projects, including other storm water initiatives, bicycle path initiatives, and Town buildings. The reader should note that 2 of these other funds have negative fund balances as of June 30, 2011. In both cases, the negative fund balance is solely related to timing issues associated with grant reimbursements that had not yet been received as of June 30, 2011. These grant reimbursements are expected in FY 11-12.

FY 10-11 Budget Administration

The Board of Commissioners adopted the FY 10-11 budget in June 2010 after a thoughtful and analytical review process over the previous several months. The result was a responsible spending plan that balanced the Town's financial concerns and capital project needs with respect for the Town's property taxpayers as the Nation, State, and region continued to wrestle with the effects of the recent prolonged recession. The total adopted FY 10-11 Town budget (across all annually budgeted funds) was \$9,431,735, a \$333,752 increase from the FY 09-10 total adopted budget amount of \$9,097,983. The increase in the FY 10-11 budget was solely attributed to a strategic decision to appropriate \$375,000 for specific storm water improvements (the Coast Guard Road Storm Water Phase IV project discussed above), and was offset somewhat by other budget reductions.

The adopted FY 10-11 budget included a 1-cent General Fund tax rate increase, resulting in an 8-cent General Fund tax rate. The bulk of this 1-cent tax rate increase was directly associated with the Coast Guard Road storm water improvements, and also assisted the Town in dealing with slight decreases in other revenue sources. The FY 10-11 budget also included the same 16.2-cent (oceanfront and inlet-front) and 1.1-cent (all others) tax rates for the beach nourishment special districts. Other than the \$375,000 earmarked for the Coast Guard Road storm water improvements, the adopted FY 10-11 budget was very similar to the FY 09-10 budget that had included significant (more than \$1.5 million) budget reductions from the previous year. The FY 10-11 adopted budget enabled the Town to maintain its high quality service standards and allowed for responsible capital replacement, but did not include any significant new capital project initiatives other than storm water.

The adopted FY 10-11 General Fund budget was \$7,156,985 (including Powell Bill and transfers out), which represented a \$377,940 increase from the prior year. Nearly all of this increase was attributed to the appropriation for Coast Guard Road storm water improvements. The remainder of the General Fund budget was very similar to the previous year, with only relatively minor increases and decreases in various revenue sources and departmental budgets. In accordance with the Town's budget goals, the originally adopted FY 10-11 budget did not include the appropriation of General Fund balance to meet budgeted expenditures.

Over the course of FY 10-11, the General Fund budget was amended a total of 11 times, and the final amended General Fund budget at June 30, 2011 was \$7,585,749 (including Powell Bill and transfers out). Most of these budget amendments were minor and associated with unanticipated additional revenues, additional small projects, and/or unexpected expenditures. Four of these budget amendments were more significant and account for the majority of the increase in the final amended budget amount. In July 2010, the Town experienced lightning damage to communications equipment, and later appropriated a total of \$46,516 of insurance proceeds to repair and replace this equipment. In February 2011, the Board approved a new regional access parking fee program, and a total of \$45,000 of anticipated parking

revenues was appropriated for expenses in the Police, Fire, and Parks and Recreation Departments for beach-related services. In April 2011, the Town made an arrangement with Emerald Isle EMS, Inc., a non-profit service provider under contract to the Town, for the Town to purchase new defibrillators for EI EMS, Inc., and then appropriated a reimbursement from EI EMS, Inc. for \$103,134. Also in April 2011, the Town learned that it had been approved for a \$97,043 grant from the US Fire Administration for new fire turn out gear and other items, and appropriated these funds at that time. Fortunately, the Town still ended the year with a General Fund surplus, and these budget amendments did not require the use of any General Fund balance during FY 10-11.

The originally adopted FY 10-11 Beach Nourishment Debt Service Fund budget was \$2,245,750 to cover scheduled bond principal and interest payments during the year. The adopted budget included the intentional appropriation of \$2,911 of fund balance, as called for in the overall financing plan for the beach nourishment bonds. The final amended budget amount at June 30, 2011 was \$2,258,200, and included a final fund balance appropriation of \$15,361 for permitting activities for a future eastern Emerald Isle beach nourishment project. As noted earlier, the actual use of Beach Nourishment Debt Service Fund balance was slightly less than the budget amount, a total of only \$9,822.

The only other annually budgeted fund used by the Town in FY 10-11 was the Special Drug Fund, which had minimal revenue activity and no expenditures.

The Town continued to utilize several multi-year capital project funds during FY 10-11. Separate, segregated funds are in place for several ongoing projects. The most significant project is the Public Boat Launching Facility, which, as of June 30, 2011, has a total authorized budget of \$4,400,000, of which \$3,742,256 is funded by anticipated grants and contributions. The budget for this project was amended on three occasions during the fiscal year as various grants and contributions were finalized, and also to add a restroom facility funded by an additional contribution. This capital project fund will remain active until the entire project is closed out in FY 11-12.

The other most significant capital project fund is for the Coast Guard Road Storm Water Phase IV project. The FY 10-11 General Fund budget included a \$375,000 appropriation transferred to this capital project fund for the construction of improvements at Emerald Isle Woods Park and in The Point neighborhood. This capital project budget was established in August 2010, and was amended in May 2011 to reduce the total project budget by \$78,602 after the Town developed a more cost-effective strategy for the emergency discharge at Emerald Isle Woods Park. The amended project budget is \$296,398, and is expected to be sufficient to complete all planned improvements during FY 11-12.

Other capital project funds experienced minor budget amendments throughout the fiscal year, and there are no project funding shortfalls anticipated for any outstanding capital project funds as of June 30, 2011.

The Fiscal Year Ahead - FY 11-12 Budget Highlights

The Town's FY 11-12 adopted budget totals \$8,760,176 across all annual Town funds, a significant decrease from the FY 10-11 total adopted budget amount of \$9,431,735. The main reason for this decrease is a significant decrease in anticipated sales tax revenues in the General Fund and the phasing out of the old Beach Nourishment Debt Service Fund and replacement of this fund with the new Future Beach Nourishment Fund.

The Town's adopted FY 11-12 General Fund budget is \$6,789,621, including transfers to other funds (but not Powell Bill), and this amount is \$227,070, or 3.2%, less than the originally adopted budget for FY 10-11 (not including Powell Bill). This decrease is primarily attributed to the anticipated \$340,000 reduction in sales tax revenues due to the fact that the Town's special district tax revenues for beach nourishment will decrease significantly in the future, thus impacting the Town's sales tax distribution in the future. Although the full impact of this reduction will actually not occur until FY 12-13, the Town made a conscious decision to budget for the decrease in FY 11-12 to stabilize the Town's budget and General Fund tax rate. Several budget reductions, and a few other revenue enhancements, were made in the General Fund to absorb this anticipated reduction, but the Town is fortunate that these budget reductions are not expected to reduce service quality. Due to the implementation of the 2011 tax revaluation by the County and the Town, the General Fund tax rate was set at 11.5 cents per \$100 of assessed value, which is the revenue-neutral equivalent of the FY 10-11 rate of 8 cents.

The FY 11-12 General Fund budget again includes conservative revenue projections, reflecting the lingering uncertainty surrounding the National, State, and regional economy. In an effort to insure that annual solid waste service fees fully cover the Town's solid waste costs, the annual solid waste fee was increased from \$180 per developed residential unit to \$190, and this fee increase results in approximately \$62,500 of additional General Fund revenue in the FY 11-12 budget. All other General Fund revenues are budgeted at levels relatively similar to FY 11-12 actual amounts, and are believed to be conservative. The FY 11-12 General Fund adopted budget again does not include the use of any General Fund balance to meet planned expenditures. On the expenditure side, the budget does not include any significant new expenditures, but does provide sufficient funding to maintain the Town's service quality, and also invests appropriately in needed capital replacement items and some minor, new capital items. The FY 11-12 General Fund budget does include the elimination of one full-time position in the Parks and Recreation Department, but also adds additional inmate laborers to offset this loss of manpower. Funding is included for a one-time \$500 bonus for each full-time employee, but the FY 11-12 budget also included a 1% reduction in the Town's 401k contribution for each employee and also eliminated one annual holiday to help control costs.

The FY 11-12 budget also includes the establishment of the new Regional Access Parking Fund to account for the Town's new regional access parking fees implemented in April 2011. This new fund has an annual budget of \$111,000, and includes appropriations for historical and new beach services at these two facilities. The creation of the new parking fee and fund enabled the Town to shift approximately \$82,000 of previous General Fund expenses to the new fund, and they are now fully supported by the new parking fee.

The FY 11-12 budget includes the appropriation of \$1,007,000 of fund balance in the Beach Nourishment Debt Service Fund for the second-to-last bond payment for the 2005 beach nourishment project. FY 12-13 will be the final year this fund is utilized by the Town. The FY 11-12 budget also includes the creation of the new Future Beach Nourishment Fund, which has been created to account for new (but lower) special district tax revenues that will be accumulated over time and reserved for future beach nourishment efforts. A total of \$680,696 is appropriated in FY 11-12. The new special district tax rates for FY 11-12 are 4.5 cents for oceanfront and inlet-front properties, and 1.5 cents for all others. These rates are considerably lower than the previous 16.2 cent and 1.1 cent rates in effect for FY 10-11.

The FY 11-12 budget for the Town's Powell Bill Fund and the Special Drug Fund are comparable to prior years, with no significant budget issues.

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

The local economy is fueled by the tourism, construction, and real estate industries, and also by the accumulated wealth of our many retirees. These industries experienced record-breaking years in the mid-2000s, however, each suffered to some degree due to the recent prolonged recession. Fortunately, Emerald Isle appears to have emerged from the recession, and has weathered the recession relatively well. The community is encouraged by its resiliency during the recession and recent positive indicators provide hope for the future.

Although the Town certainly experienced the impacts of the recession, the underlying relative wealth of the Town's population, the Town organization's historical financial strength, and sound management have enabled the Town to maintain its strong financial position. Because of the Town's desirable coastal location, the long-term economic outlook for the Town is very positive.

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. Fluctuations in building permit revenues create budget challenges, but the Town has been able to stabilize expenditures funded by building permit revenues in the past three years. Due to the Town's relatively large total assessed value (more than \$2.98 billion), the annual amount of new construction now 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. Because of the tax revaluation process and a reliance on revenue-neutral tax rates, the health of the real estate industry 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 less disposable income to invest in new construction, retail items, etc.

The local tourism industry experienced only a relatively modest decline during the recession, and appears to again be in a growth trend. Emerald Isle and Carteret County continue to be a desirable place and a relatively affordable place for family vacations. Carteret County levies a 5% room occupancy tax on all short-term accommodations in the County, including Emerald Isle, and research indicates that Emerald Isle alone represents approximately 60% 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 peaked in FY 07-08 at \$4.76 million, and had declined by approximately 11% to \$4.22 million in FY 09-10. Collections for FY 10-11 increased by nearly 5% to \$4.43 million, and thus far, collections for FY 11-12 are up by approximately 1% over the first 4 months of FY 10-11. Continued improvement is anticipated, and we look forward to the 2012 tourism season 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. Due to decreased retail sales both State-wide and locally, declines in construction activity both State-wide and locally, and reduced visitation locally, the Town's annual sales tax revenues have declined significantly, but now appear to be experiencing growth again. The recent declines in sales tax revenues have had the most negative impact on the Town's budget during the three year period from FY 06-07 to FY 09-10, with annual sales tax revenues declining from more than \$1.91 million in FY 06-07 to \$1.51 million in FY 09-10. Fortunately, total sales tax revenues for FY 10-11 increased by 3.7% (to \$1.57 million) over the FY 09-10 amount. As noted previously, the Town's FY 11-12 budget assumes a \$340,000 decrease in total sales tax collections, however, this decrease is solely associated with the sales tax distribution formula (due to the fact that the Town's total property tax levy will decrease due to lower special district tax rates for beach nourishment in the future), and is not associated at all with a reduction in economic activity.

The local construction industry remains in a significant slump, but is showing some small signs of improvement. The total value of new construction in the Town in FY 10-11 was approximately \$12.0 million, up from the FY 09-10 amount of \$8.9 million (the least amount in recent memory). The Town permitted a total of 21 new residential structures in FY 10-11, compared with only 14 new residential structures in FY 09-10. The FY 10-11 figures are still down significantly from the peak years in the mid-2000s, when total new construction peaked at \$38.4 million and 114 new residential structures in FY 04-05, but it now appears that the Town has "hit bottom" and the trend is going in the right direction. The significant decrease in new construction in recent years had a significant impact on the Town's budget, but development revenues and expenditures were adjusted in the past few years to reflect the recent level of construction activity. Total building permit revenues for FY 10-11 were nearly \$129,000, and this was a slight increase over the FY 09-10 amount of approximately \$107,000. This compares with the peak year in FY 04-05 when building permit revenues were approximately \$272,000. Thus far, building permit activity for FY 11-12 is ahead of FY 10-11 after 4 months, with a total of 9 new residential structures permitted thus far. We are optimistic that the entire FY 11-12 will include additional modest growth in construction activity. As noted earlier, the decrease in the local construction industry also contributes to the decline in sales tax collections in Carteret County (and State-wide), as less construction results in less materials purchased and less sales tax paid. The impacts of the decline in construction on sales tax have likely been a significant contributor to the declining sales tax revenues discussed above. Over the long-term, however, 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 60 - 70 new homes constructed annually at a total annual value of approximately \$20 - \$25 million.

Real estate values increased significantly in the mid-2000s, as evidenced by the dramatic increase in the Town's total assessed value from \$1.52 billion (based on 2001 values) to \$4.25 billion (based on 2007 values) in the 2007 revaluation. After significant increases in the mid-2000s, real estate values have decreased significantly as the real estate market has experienced a correction. Total sales volume has dropped significantly in Emerald Isle since the boom in the mid-2000s, and remains lower than historical averages. The decrease in the real estate market affects overall economic activity in the Town, which results in indirect financial impacts for the Town, but does not have a direct impact on the Town's budget

and financial position. Throughout the recent prolonged recession, the Town's property tax base was based on fixed 2007 values, thus property tax collections did not suffer as a result of the declining values. Carteret County completed a tax revaluation in 2011, and the Town's total taxable value as of June 30, 2011 is now slightly more than \$2.98 billion, approximately a 30% decrease. For FY 11-12, the Board of Commissioners established a revenue-neutral property tax rate of 11.5 cents for the General Fund, and this new rate is expected to generate approximately the same amount of property tax revenue in FY 11-12 as was collected in FY 10-11 (approximately \$3.4 million). 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, with its desirable coastal location, is home to many retirees with high relative wealth. Like everyone, retirement accounts in Emerald Isle were impacted by the volatility in the stock market during the past few years, and this has likely also impacted the local economy. As the stock market has regained a portion of its losses, this has likely improved the financial position of our retirees to some degree. In addition, the continued (albeit slower than desired and sometimes fluctuating) growth in economic confidence in our Nation, State, and region will hopefully spur greater investment of all kinds in the coming months and years. This investment will hopefully provide positive results, and will hopefully also include coastal real estate investment at a sustainable level.

In summary, the Town's major industries (tourism, construction, and real estate) appear to be trending up again, and this bodes well for the Town's budget and financial position. The Town made prudent budget and financial adjustments during the recent prolonged recession, and has maintained a solid financial position as a result. In the long term, the desirability of Emerald Isle and the high demand for coastal living and vacations should result in stable tourism, construction, and real estate industries, and the Town's overall long-term financial outlook should remain 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 eliminate 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 Georgia "Mitsy" Overman, Assistant Town Manager / Finance Officer (moverman@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.

Respectfully submitted,



Frank A. Rush, Jr.
Town Manager
December 2, 2011

Basic Financial Statements

Town of Emerald Isle, North Carolina
Statement of Net Assets
June 30, 2011

	Primary Government
	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,691,408
Receivables (net)	911,686
Total current assets	4,603,094
Non Current Assets:	
Capital assets (Note 4):	
Land, improvements, and construction in progress	11,388,786
Other capital assets, net of depreciation	5,931,287
Total capital assets	17,320,073
Total assets	\$ 21,923,167
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 528,687
Compensated absences payable	210,130
Net pension obligation	102,084
Current portion of long term liabilities	1,170,606
Total current liabilities	2,011,507
Long-term liabilities:	
Due in more than one year	2,429,127
Total long term liabilities	2,429,127
Total liabilities	4,440,634
NET ASSETS	
Invested in capital assets, net of related debt	13,450,777
Restricted for	
Streets - Powell Bill	1,145
Stabilization by State Statute	912,931
Unrestricted	3,117,680
Total net assets	\$ 17,482,533

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

**Town of Emerald Isle, North Carolina
Statement of Activities
For the Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental Activities:					
General government	\$ 1,275,278	\$ 140,891	\$ -	\$ -	\$ (1,134,387)
Public safety	3,214,020	88,361	-	92,711	(3,032,948)
Environmental protection	1,926,458	1,171,139	191,719	-	(563,600)
Economic and physical development	23,055	-	-	728,761	705,706
Cultural and recreation	750,860	191,449	13,000	-	(546,411)
Interest on long-term debt	175,995	-	-	-	(175,995)
Total governmental activities	\$ 7,365,666	\$ 1,591,840	\$ 204,719	\$ 821,472	\$ (4,747,635)

General revenues:

Taxes:

Property taxes, levied for general purpose	5,645,506
Local option sales tax	1,568,508
Other taxes and licenses	822,806
Unrestricted investment earnings	20,941
Total general revenues	8,057,761
Change in net assets	3,310,126
Net assets, beginning, restated	14,172,407
Net assets, ending	\$ 17,482,533

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

Town of Emerald Isle, North Carolina
Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds				
	General Fund	Public Boat Launching Facility Capital Project Fund	Beach Nourishment Debt Service	Non-Major Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,418,788	\$ 113,820	\$ 1,811,929	\$ 346,871	\$ 3,691,408
Taxes receivable, net	47,520	-	-	-	47,520
Accounts receivables, net	854,166	10,000	270,000	-	1,134,166
Due from other funds	11,245	-	-	-	11,245
Total assets	<u>\$ 2,331,719</u>	<u>\$ 123,820</u>	<u>\$ 2,081,929</u>	<u>\$ 346,871</u>	<u>\$ 4,884,339</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 389,035	\$ -	\$ -	\$ 75,688	\$ 464,723
Due to other funds	-	11,245	-	-	11,245
Deferred/Unearned revenue	47,520	-	-	-	47,520
Total liabilities	<u>436,555</u>	<u>11,245</u>	<u>-</u>	<u>75,688</u>	<u>523,488</u>

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

**Town of Emerald Isle, North Carolina
Balance Sheet
Governmental Funds
June 30, 2011**

	<u>Major Funds</u>				
	<u>Public Boat Launching Facility</u>				
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Beach Nourishment Debt Service</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
Fund balances:					
Restricted					
Stabilization by State Statute	912,931	-	-	-	912,931
Streets	1,145	-	-	-	1,145
Unassigned	981,088	112,575	2,081,929	271,183	3,446,775
Total fund balances	<u>1,895,164</u>	<u>112,575</u>	<u>2,081,929</u>	<u>271,183</u>	<u>4,360,851</u>
Total liabilities and fund balances	<u>\$ 2,331,719</u>	<u>\$ 123,820</u>	<u>\$ 2,081,929</u>	<u>\$ 346,871</u>	
<p>Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:</p>					
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>					
					17,320,073
<p>Liabilities for earned but deferred revenues in fund statements.</p>					
					41,248
<p>Other long-term assets (accrued interest from taxes) are not available to pay current period expenditures and therefore are deferred in the funds.</p>					
					(57,691)
<p>Interfund loan reported in the funds but eliminated on government-wide statements</p>					
					(270,000)
<p>Some liabilities, including, accrued interest, compensated absences and other postemployment benefits, are not due and payable in the current period and therefore are not reported in the funds.</p>					
					<u>(3,911,948)</u>
Net assets of governmental activities					<u>\$ 17,482,533</u>

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

Town of Emerald Isle, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

	Major Funds			Total Nonmajor Funds	Total Governmental Funds
	General Fund	Public Boat Launching Facility Capital Project Fund	Beach Nourishment Debt Service Fund		
REVENUES					
Ad valorem taxes	\$ 3,418,108	\$ -	\$ 2,236,398	\$ -	\$ 5,654,506
Other taxes and licenses	14,001	-	-	-	14,001
Unrestricted intergovernmental	2,087,501	-	-	-	2,087,501
Restricted intergovernmental	254,255	704,705	-	54,533	1,013,493
Permits and fees	1,456,219	-	-	-	1,456,219
Sales and services	139,622	-	-	-	139,622
Investment earnings	9,554	-	11,365	22	20,941
Miscellaneous	267,386	-	-	1,427	268,813
Total revenues	7,646,646	704,705	2,247,763	55,982	10,655,096
EXPENDITURES					
Current:					
General government	1,134,539	-	-	-	1,134,539
Public safety	3,077,051	-	-	-	3,077,051
Cultural and recreation	699,922	-	-	-	699,922
Environmental protection	1,846,704	-	11,835	-	1,858,539
Economic development	-	669,487	-	182,733	852,220
Debt service:					
Principal	305,543	-	2,125,000	-	2,430,543
Interest and other charges	66,861	-	120,750	-	187,611
Total expenditures	7,130,620	669,487	2,257,585	182,733	10,240,425
Excess (deficiency) of revenues over expenditures	516,026	35,218	(9,822)	(126,751)	414,671
OTHER FINANCING SOURCES (USES)					
Transfers from other funds	31	78,602	-	432,500	511,133
Transfers to other funds	(432,500)	-	-	(78,633)	(511,133)
Total other financing sources (uses)	(432,469)	78,602	-	353,867	-
Net change in fund balance	83,557	113,820	(9,822)	227,116	414,671
Fund balance, beginning	1,811,607	(1,245)	2,091,751	44,067	3,946,180
Fund balance, ending	\$ 1,895,164	\$ 112,575	\$ 2,081,929	\$ 271,183	\$ 4,360,851

(continued)

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

Town of Emerald Isle, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2011

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

Net changes in fund balances - total governmental funds	\$	414,671
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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.

Capital outlay expenditures which were capitalized	934,912	
Depreciation expense for governmental assets	<u>(448,762)</u>	486,150

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue for tax revenues		23,682
Capital asset disposed of during year		<u>(2,126)</u>

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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

2,430,455

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.

Compensated absences		(32,374)
Accrued interest payable		11,616
Net pension obligation		<u>(21,948)</u>

Total changes in net assets of governmental activities	\$	<u><u>3,310,126</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Emerald Isle, North Carolina
General Fund and Beach Nourishment Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2011

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 3,437,423	\$ 3,437,423	\$ 3,418,108	\$ (19,315)
Other taxes and licenses	12,500	12,500	14,001	1,501
Unrestricted intergovernmental	2,015,218	2,015,218	2,087,501	72,283
Restricted intergovernmental	146,244	258,537	254,255	(4,282)
Permits and fees	1,349,000	1,436,500	1,456,219	19,719
Sales and services	134,000	134,000	139,622	5,622
Investment earnings	20,000	20,000	9,554	(10,446)
Miscellaneous	42,600	258,764	267,386	8,622
Total revenues	<u>7,156,985</u>	<u>7,572,942</u>	<u>7,646,646</u>	<u>73,704</u>
Expenditures:				
Current:				
General government	1,085,241	1,142,394	1,134,539	7,855
Public safety	2,871,610	3,087,453	3,077,051	10,402
Environmental protection	1,784,732	1,849,000	1,846,704	2,296
Cultural and recreation	664,802	701,802	699,922	1,880
Debt service:				
Principal retirement	305,455	305,555	305,543	12
Interest and other charges	70,145	67,045	66,861	184
Total expenditures	<u>6,781,985</u>	<u>7,153,249</u>	<u>7,130,620</u>	<u>22,629</u>
Revenues over (under) expenditures	<u>375,000</u>	<u>419,693</u>	<u>516,026</u>	<u>(96,333)</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	-	31	31
Transfers to other funds	(375,000)	(432,500)	(432,500)	-
	<u>(375,000)</u>	<u>(432,500)</u>	<u>(432,469)</u>	<u>31</u>
Fund balance appropriated	-	12,807	-	12,807
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,557</u>	<u>\$ 83,557</u>
Fund balances, beginning			<u>1,811,607</u>	
Fund balances, ending			<u>\$ 1,895,164</u>	

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

Beach Nourishment Debt Service Fund

Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
\$ 2,222,174	\$ 2,222,174	\$ 2,236,398	\$ 14,224
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
20,665	20,665	11,365	(9,300)
-	-	-	-
<u>2,242,839</u>	<u>2,242,839</u>	<u>2,247,763</u>	<u>4,924</u>
-	-	-	-
-	-	-	-
12,450	12,450	11,835	615
-	-	-	-
2,125,000	2,125,000	2,125,000	-
120,750	120,750	120,750	-
<u>2,258,200</u>	<u>2,258,200</u>	<u>2,257,585</u>	<u>615</u>
<u>(15,361)</u>	<u>(15,361)</u>	<u>(9,822)</u>	<u>(5,539)</u>
-	-	-	-
-	-	-	-
-	-	-	-
15,361	15,361	-	15,361
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (9,822)</u>	<u>\$ (9,822)</u>

2,091,751
\$ 2,081,929

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

Town of Emerald Isle, North Carolina
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 63,727	\$ 457
LIABILITIES		
Accounts payable and accrued liabilities	\$ -	\$ 147
NET ASSETS		
Assets held in trust for pension benefits	\$ 63,727	\$ 310

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

**Town of Emerald Isle, North Carolina
Statement of Changes in Plan Net Assets
Changes in Fund Balances - Fiduciary Funds
For the Year Ended June 30, 2011**

	Pension Trust Fund
Additions:	
Employer contributions	\$ -
Net increase	-
Total net assets, beginning	63,727
Total net assets, ending	\$ 63,727

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

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Notes to the Financial Statements

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Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Emerald Isle conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Emerald Isle is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government. 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 the *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues 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.

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

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, solid waste fees, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, parks and recreation, and general government services.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

Beach Nourishment Debt Service Fund. This fund accounts for the debt service of the Town's beach nourishment activities. Funds are transferred or collected to pay the Town's general obligation bonds.

Public Boat Launching Facility Capital Project Fund. This fund accounts for financial resources to be used for expenditures associated with the Boat Launching Facility project.

The Town reports the following non-major governmental funds:

Special Revenue Fund. This fund accounts for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. The Town maintains the following Special Revenue Fund: The Special Drug Fund.

Capital Project Funds. These funds account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The Town had the following non-major capital project funds: the Eastern EI Storm Water Fund, the NC 58 Bicycle Path, the Bicycle Path and Sidewalks Project Fund, the Beach Nourishment Monitoring, the Archer's Creek Storm Water Fund, the Town Administration Office Building, the NC 58 Multiuse Path, the Coast Guard Road Multiuse Path, and the Coast Guard Road Storm Water Phase IV.

The Town reports the additional following fund types:

Pension Trust Fund. The Town has a Pension Trust Fund, the Special Separation Allowance Fund, that accounts for the Law Enforcement Officer's Special Separation Allowance, a single-employer, public retirement system.

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains the following agency fund: Homeowner's Recovery Fund.

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 Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide fiduciary 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.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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.

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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Emerald Isle. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, 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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, restricted and unrestricted net assets 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.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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, the Beach Nourishment Debt Service Fund, and the Special Drug Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Eastern EI Storm Water Fund, the NC 58 Bicycle Path, the Bicycle Path and Sidewalks Project Fund, the Beach Nourishment Monitoring, the Archer's Creek Storm Water Fund, the Town Administration Office Building, the NC 58 Multiuse Path, the Coast Guard Road Multiuse Path, and the Coast Guard Road Storm Water Phase IV. 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 Town Manager is authorized to transfer appropriations within departments; however, any revisions that alter total expenditures of any department must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing body must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town 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'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. The NCCMT Term Portfolio's securities are valued at fair value.

In accordance with State law, the Town has invested in securities which are callable and which provide for 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.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

3. Restricted Assets

The unexpended Powell Bill revenue is classified as restricted assets in governmental funds because the use is completely restricted by State law. The balance at June 30, 2011 was \$1,145.

4. 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, 2010.

5. Allowance 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.

6. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government – wide and fund financial statements and expensed as the items are used.

7. 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 costs 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 that were acquired or that received substantial improvements and are reported at historical 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.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Improvements	20
Vehicles	5
Furniture and equipment	10
Computer equipment and software	3

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. 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 are reported as deferred charges and 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 while discounts on debt issuances are reported as other financing issues. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded 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 that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides 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 benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

10. Net Assets/Fund Balances

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; 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 the 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 Town of Emerald Isle’s governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action of the governing body.

Assigned Fund Balance – portion of fund balance that the Town of Emerald Isle 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.

II. Stewardship, Compliance, and Accountability

A. Deficits in Fund Balance or Net Assets of Individual Funds

The Eastern EI Stormwater Outfall Project and NC 58 Bicycle Path Capital Project Funds had deficit balances at June 30, 2011 of \$10,898 and \$60,184, respectively. The deficit fund balances

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

were due to timing differences associated with grant reimbursements. Management will closely monitor expenditures in the future.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town 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 agents in the unit's name. 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, these deposits are considered to be held by the Town's 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 has 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, 2011, the Town's deposits had a carrying amount of \$2,165,151 and a bank balance of \$2,446,996. Of the bank balance, \$696,113 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$500. The fiduciary funds had a cash balance of \$64,184.

2. Investments

At June 30, 2011, the Town had \$1,525,757 invested with the North Carolina Capital Management Trust's Cash Portfolio, which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

3. Receivables

Receivables at the government-wide level at June 30, 2011, were as follows:

	Accounts	Taxes Receivable	Total
Governmental Activities:			
General	\$ 864,166	\$ 55,465	\$ 919,631
Total receivables	864,166	55,465	919,631
Allowance for doubtful accounts	-	(7,945)	(7,945)
 Total-governmental activities	 \$ 864,166	 \$ 47,520	 \$ 911,686

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,977,304	\$ 608,076	\$ -	\$ 10,585,380
Construction in progress	582,317	221,089	-	803,406
Total capital assets not being depreciated	10,559,621	829,165	-	11,388,786
Capital assets being depreciated:				
Buildings	3,072,081	-	-	3,072,081
Improvements	2,922,358	-	-	2,922,358
Furniture and equipment	1,540,169	28,030	34,743	1,533,456
Vehicles and motorized equipment	2,372,935	77,717	88,992	2,361,660
Total capital assets being depreciated	9,907,543	105,747	123,735	9,889,555
Less accumulated depreciation for:				
Buildings	610,173	61,442	-	671,615
Improvements	364,969	98,730	-	463,699
Furniture and equipment	1,067,424	93,048	38,977	1,121,495
Vehicles and motorized equipment	1,588,548	195,542	82,632	1,701,458
Total accumulated depreciation	3,631,114	448,762	121,609	3,958,267
Total capital assets being depreciated, net	6,276,429			5,931,288
Governmental activity capital assets, net	\$ 16,836,050			\$ 17,320,074

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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

General government	\$ 137,556
Public safety	202,934
Environmental protection	63,620
Cultural and recreation	44,652
Total depreciation expense	<u>\$ 448,762</u>

Construction Commitments

The government has active construction projects as of June 30, 2011. At year-end, the government's commitments with contractors are as follows:

Project	Spent to date	Remaining Commitment
Public Boat Facility	\$ 3,712,576	\$ 687,424
NC 58 Bicycle Path	567,342	25,872
EI Storm Water	33,858	63,142
NC Multiuse Path	12,308	69,692
Coast Guard Road Storm Water Phase IV	41,928	254,470
Total	<u>\$ 4,368,012</u>	<u>\$ 1,100,600</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town 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.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is 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 6.35% and 6.41% respectively, of annual covered payroll. The contribution requirement of members and of the Town is established and may be amended by the North Carolina General Assembly. The Town’s contributions to LGERS for the years ended June 30, 2011, 2010, and 2009 were \$160,866, \$117,599, and \$89,119. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The Town 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.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010 the Separation Allowance’s membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>15</u>
Total	<u><u>15</u></u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements are reported at cost or amortized

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

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.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.255% to 7.85%. Both (a) and (b) included an inflation component of 3%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

3 Year Trend Information			
For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 15,878	0.00%	\$ 62,869
2010	17,267	0.00%	80,136
2011	21,948	0.00%	102,084

4. Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 32.01% funded. The actuarial accrued liability for benefits was \$199,078 and the actuarial value of assets was \$63,727, resulting in an unfunded actuarial liability of (UAAL) of \$135,351.

The covered payroll (annual payroll of active employees covered by the plan) was \$636,285, and the ratio of the UAAL to the covered payroll was 21.27%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

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 and Other Employees is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the 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 and Other Employees. The 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. The Town has elected to contribute six percent, 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, 2011 were \$256,660, which consisted of \$143,318 from the Town and \$113,342 from the law enforcement officers and other employees.

d. Fireman's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Emerald Isle, to the Fireman's Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Fireman's and Rescue Squad Workers' Pension Fund 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 the Fund. 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. The Town contributes \$10 per month for each participant to the Fund. The State, a non-employer contributor, funds the plan through appropriations. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

2. Other Employment Benefits

The Town has also elected to provide death benefits to law enforcement 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.

2. Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Taxes receivable (general fund)	\$ 47,520	\$ -
Total	\$ 47,520	\$ -

3. 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 of three 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 \$2 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, police professionals liability and public officials liability in excess of \$1,000,000; property in excess of \$500,000 and \$1,000,000 up to statutory limits for workers' compensation.

The property liability pool has a \$100,000,000 annual aggregate for property losses.

There have been no significant reductions in insurance coverage in the year prior, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town carries employee health coverage through a commercial carrier with an unlimited lifetime limit.

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

The Town carries flood insurance through the National Flood Insurance Plan (NFIP).

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 is bonded for \$50,000, and the tax collector is bonded for \$20,000. The remaining employees that have access to funds are bonded under a blanket bond for \$20,000.

4. Claims, Judgments and Contingent Liabilities

At June 30, 2011, the Town has no pending claims or judgments.

5. Long-Term Obligations

a. General Obligation Indebtedness

The Town's general obligation bonds serviced by the governmental funds were issued for the beach nourishment project. Those general obligation bonds issued to finance the beach nourishment and which are being retired by benefit district taxes are reported as long-term debt in the Beach Nourishment Debt Service Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2011 are comprised of the following individual issues:

General Obligation Bonds

Serviced by the Beach Nourishment Debt Service Fund:

2004 General Obligation Beach Improvement Bonds in the amount of \$7,600,000 due in annual installments of \$950,000 plus interest through February 1, 2010 at 3.0% and interest from February 1, 2010 through February 1, 2011 at 3.25% and interest from February 1, 2011 through February 1, 2013 at 3.0%. The balance due at June 30, 2011 was \$1,900,000.

At June 30, 2011, the Town of Emerald Isle had a legal debt margin of \$339,085,321.

Annual debt service requirements to maturity for long-term obligations are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 950,000	\$ 57,000
2013	950,000	28,500
	<u>\$ 1,900,000</u>	<u>\$ 85,500</u>

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

b. Installment Purchases:

On January 15, 2008, the Town entered into an installment purchase agreement for the purchase of land. This financing contract carries an interest rate of 3.6%. Original amount financed was \$585,000. The balance due at June 30, 2011 was \$390,000.

On April 10, 2008, the Town entered into an installment purchase agreement for storm water improvements. The contract will be paid in annual installments of \$94,983 including interest at 3.26% annum for 10 years. Original amount financed was \$800,000. The balance due at June 30, 2011 was \$586,015.

On September 1, 2008, the Town entered in an installment purchase contract for the construction of a new administration building. The contract will be paid in annual installments of \$105,636 including interest at 3.58% annum for 10 years. Original amount financed was \$875,000. The balance due at June 30, 2011 was \$723,718.

The future minimum payments of all installment purchases as of June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 220,606	\$ 59,053
2013	225,934	51,385
2014	231,444	43,534
2015	237,144	35,495
2016	243,039	27,259
2017 - 2019	541,566	32,648
payments	\$ 1,699,733	
Total interest payments		\$ 249,374

c. Changes in Long-Term Liabilities:

	Beginning Balances, Restated	Increases	Decreases	Ending Balances	Current Portion of Balance
Governmental activities:					
Capital assets not being depreciated:					
General obligation bonds	\$4,025,000	\$ -	\$ 2,125,000	\$1,900,000	\$ 950,000
Installment purchases	1,915,187	-	215,454	1,699,733	220,606
Net pension obligation	80,136	21,948	-	102,084	-
Compensated absences	177,756	35,423	3,049	210,130	-
Total	\$6,198,079	\$ 57,371	\$ 2,343,503	\$3,911,947	\$ 1,170,606

Compensated absences typically have been liquidated in the General Fund.

**Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011**

C. Interfund Balances and Activity

Transfers to/from other funds at June 30, 2011 consist of the following:

From the General Fund to NC 58 Bicycle Path Fund	\$ 32,000
From the General Fund to Coast Guard Road Bicycle Path Fund	25,500
From the General Fund to Coast Guard Road Storm Water Phase IV	375,000
From the Coast Guard Road Storm Water IV Fund to Public Boat Launching Facility Fund	78,602
	\$ 511,102

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

Due to/from at June 30, 2011 consists of the following:

Due to the General Fund from the Public Boat Launch Fund for expenditures	\$ 11,245
	\$ 11,245

D. Prior Period Adjustments

During the year ended June 30, 2011, the Town determined that an interfund loan balance of \$270,000 should not be included as debt on the government-wide statement of net assets. As a result, beginning net assets on Exhibit 2 of the statement of activities has been restated.

E. Fund Balance

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

Total fund balance - General Fund	\$ 1,895,164
Less:	
Stabilization by State Statute	912,931
Streets - Powell Bill	1,145
Working Capital/Fund Balance Policy	981,088
Remaining Fund Balance	\$ -
	\$ -

Town of Emerald Isle, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2011

IV. Summary Disclosure of Significant Contingencies

Federal and State Assistance Programs

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.

Required Supplementary Financial Data

- Schedule of Funding Progress for Law Enforcement Officers' Special Separation Allowance
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance

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**Town of Emerald Isle, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b- a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2005	63,727	129,868	66,141	49.07%	637,579	10.37%
12/31/2006	63,727	132,707	68,980	48.02%	672,507	10.26%
12/31/2007	63,727	150,213	86,486	42.42%	712,616	12.14%
12/31/2008	63,727	169,630	105,903	37.57%	734,128	14.43%
12/31/2009	63,727	207,575	143,848	30.70%	751,739	19.14%
12/31/2010	63,727	199,078	135,351	32.01%	636,285	21.27%

**Town of Emerald Isle, North Carolina
 Law Enforcement Officers' Special Separation Allowance
 Required Supplementary Information
 Schedule of Employer Contributions**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2006	16,145	130.07%
2007	13,634	0.00%
2008	14,169	0.00%
2009	15,878	0.00%
2010	17,267	0.00%
2011	21,948	0.00%

Individual Fund Statements and Schedules

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Town of Emerald Isle, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Ad valorem taxes:			
Collections of tax levy		3,408,908	
Penalties and interest		9,200	
	<u>3,437,423</u>	<u>3,418,108</u>	<u>(19,315)</u>
Other taxes and licenses:			
Privilege licenses	<u>12,500</u>	<u>14,001</u>	<u>1,501</u>
Total taxes	<u>3,449,923</u>	<u>3,432,109</u>	<u>(17,814)</u>
Unrestricted intergovernmental:			
Local option sales tax		1,568,508	
Utility franchise tax		276,688	
Beer/wine tax		17,550	
Video programming		138,760	
Telecommunications tax		51,558	
Refunds		34,437	
	<u>2,015,218</u>	<u>2,087,501</u>	<u>72,283</u>
Restricted intergovernmental:			
Grants		105,711	
Powell Bill allocation		148,544	
	<u>258,537</u>	<u>254,255</u>	<u>(4,282)</u>
Total intergovernmental	<u>2,273,755</u>	<u>2,341,756</u>	<u>68,001</u>

Town of Emerald Isle, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Permits, fees and assessments:			
Solid waste fees		1,163,381	
Administration fees		86	
Building and trailer permits		128,815	
CAMA permits		8,525	
Dunes and vegetation permits		3,550	
Beach vehicular permits		58,956	
Parking fees and fines/officer fees		68,398	
Solid waste disposal tax		2,658	
Reentry fees		14,275	
Golf cart permits		7,575	
Total permits, fees and assessments	<u>1,436,500</u>	<u>1,456,219</u>	<u>19,719</u>
Sales and services:			
Tennis fees		1,093	
Recreation revenues		132,340	
Miscellaneous		6,189	
Total sales and services	<u>134,000</u>	<u>139,622</u>	<u>5,622</u>
Investment Earnings:	<u>20,000</u>	<u>9,554</u>	<u>(10,446)</u>
Miscellaneous revenue:			
Insurance proceeds/refunds		44,695	
FEMA/disaster payments		20,214	
DOT mowing reimbursement		5,100	
ABC revenues		58,461	
Donations		106,056	
Miscellaneous		750	
Sale of fixed assets		32,110	
Total miscellaneous	<u>258,764</u>	<u>267,386</u>	<u>8,622</u>
Total revenue	<u>7,572,942</u>	<u>7,646,646</u>	<u>73,704</u>

Town of Emerald Isle, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
General Government:			
Board of Commissioners:			
Salaries and benefits		54,505	
Professional services		8,577	
Operating expense		25,466	
	<u>92,319</u>	<u>88,548</u>	<u>3,771</u>
Administrative and finance:			
Salaries and employee benefits		389,654	
Operating expense		71,717	
	<u>461,866</u>	<u>461,371</u>	<u>495</u>
Inspection:			
Salaries and benefits		200,814	
Operating expense		21,429	
	<u>225,606</u>	<u>222,243</u>	<u>3,363</u>
Non-departmental:			
Contract services		10,650	
Operating expense		351,727	
	<u>362,603</u>	<u>362,377</u>	<u>226</u>
Total general government	<u>1,142,394</u>	<u>1,134,539</u>	<u>7,855</u>
Public safety:			
Police:			
Salaries and benefits		1,222,525	
Operating expense		155,325	
Capital outlay		59,671	
	<u>1,440,257</u>	<u>1,437,521</u>	<u>2,736</u>
Emergency medical services:			
Appropriations to Emerald Isle EMS		289,688	
Supplies		103,790	
	<u>400,634</u>	<u>393,478</u>	<u>7,156</u>
Fire department:			
Salaries and benefits		1,001,156	
Operating expense		117,954	
Capital outlay		126,942	
	<u>1,246,562</u>	<u>1,246,052</u>	<u>510</u>
Total public safety	<u>3,087,453</u>	<u>3,077,051</u>	<u>10,402</u>

Town of Emerald Isle, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt service:			
Principal		305,543	
Interest		66,861	
	<u>372,600</u>	<u>372,404</u>	<u>196</u>
Total expenditures	<u>7,153,249</u>	<u>7,130,620</u>	<u>22,629</u>
Revenue over (under) expenditures	<u>419,693</u>	<u>516,026</u>	<u>96,333</u>
Other financing sources (uses):			
Transfers (to) from other funds:			
From Beach post-project monitoring fund	-	31	31
To NC 58 bicycle path fund	(32,000)	(32,000)	-
To Coast Guard Road bicycle path fund	(25,500)	(25,500)	-
To Coast Guard Road storm water phase IV	(375,000)	(375,000)	-
Total other financing sources (uses)	<u>(432,500)</u>	<u>(432,469)</u>	<u>31</u>
Fund balance appropriated	<u>12,807</u>	<u>-</u>	<u>12,807</u>
Net change in fund balance	<u>\$ -</u>	83,557	<u>\$ 83,557</u>
Fund balances, beginning		1,811,607	
Fund balances, ending		<u>\$ 1,895,164</u>	

**Town of Emerald Isle, North Carolina
 Beach Nourishment Debt Service Fund
 Schedule of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual
 For the Fiscal Year Ended June 30, 2011**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Restricted intergovernmental:			
Ad valorem taxes	\$ 2,222,174	\$ 2,236,398	\$ 14,224
Investment earnings	20,665	11,365	(9,300)
Total revenue	2,242,839	2,247,763	4,924
Expenditures:			
Environmental protection	12,450	11,835	615
Debt service:			
Principal retirement	2,125,000	2,125,000	-
Interest and fees	120,750	120,750	-
Total expenditures	2,258,200	2,257,585	615
Revenues over (under) expenditures	(15,361)	(9,822)	5,539
Fund balance appropriated	15,361	-	(15,361)
Net change in fund balance	\$ -	\$ (9,822)	\$ (9,822)
Fund balance, beginning		2,091,751	
Fund balance, ending		\$ 2,081,929	

Town of Emerald Isle, North Carolina
Public Boat Launching Facility Capital Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Grants	\$ 3,741,875	\$ 2,462,321	\$ 704,705	\$ 3,167,026	\$(574,849)
Investment earnings	381	381	-	381	-
Total revenue	<u>3,742,256</u>	<u>2,462,702</u>	<u>704,705</u>	<u>3,167,407</u>	<u>(574,849)</u>
Expenditures:					
Construction and improvements	<u>4,400,000</u>	<u>3,043,089</u>	<u>669,487</u>	<u>3,712,576</u>	<u>687,424</u>
Total expenditures	<u>4,400,000</u>	<u>3,043,089</u>	<u>669,487</u>	<u>3,712,576</u>	<u>687,424</u>
Revenues under expenditures	<u>(657,744)</u>	<u>(580,387)</u>	<u>35,218</u>	<u>(545,169)</u>	<u>112,575</u>
Other financing sources:					
Proceeds from installment purchase	360,000	360,000	-	360,000	-
Transfer in/out:					
From regional access fund	46,828	46,828	-	46,828	-
From general fund	172,314	172,314	-	172,314	-
From Coast Guard Road storm water IV	<u>78,602</u>	<u>-</u>	<u>78,602</u>	<u>78,602</u>	<u>-</u>
Total other financing sources	<u>657,744</u>	<u>579,142</u>	<u>78,602</u>	<u>657,744</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (1,245)</u>	<u>\$ 113,820</u>	<u>\$ 112,575</u>	<u>\$ 112,575</u>
Fund balance, beginning			<u>(1,245)</u>		
Fund balance, ending			<u>\$ 112,575</u>		

**Town of Emerald Isle, North Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011**

	Special Revenue Fund	Capital Project Funds		
	Special Drug Fund	Eastern EI Storm Water Fund	NC 58 Bicycle Path	Bicycle Path and Sidewalks Project Fund
Assets:				
Cash and investments	\$ 38,523	\$ -	\$ -	\$ 53
Total assets	<u>\$ 38,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ 10,898	\$ 60,184	\$ -
Total liabilities	<u>-</u>	<u>10,898</u>	<u>60,184</u>	<u>-</u>
Fund Balances:				
Fund Balance - Undesignated	38,523	(10,898)	(60,184)	53
Total fund balances	<u>38,523</u>	<u>(10,898)</u>	<u>(60,184)</u>	<u>53</u>
Total liabilities and fund balances	<u>\$ 38,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53</u>

Capital Project Funds

Beach Nourishment Monitoring	Archers Creek Storm Water Fund	Town Administration Office Building	NC 58 Multiuse Path	Coast Guard Road Multiuse Path	Coast Guard Road Storm Water Phase IV	Total Nonmajor Governmental Funds
\$ -	\$ 25,000	\$ 3,229	\$ 20,661	\$ 3,183	\$ 256,222	\$ 346,871
<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 3,229</u>	<u>\$ 20,661</u>	<u>\$ 3,183</u>	<u>\$ 256,222</u>	<u>\$ 346,871</u>
\$ -	\$ -	\$ 1,885	\$ 969	\$ -	\$ 1,752	\$ 75,688
-	-	1,885	969	-	1,752	75,688
-	25,000	1,344	19,692	3,183	254,470	271,183
-	25,000	1,344	19,692	3,183	254,470	271,183
<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 3,229</u>	<u>\$ 20,661</u>	<u>\$ 3,183</u>	<u>\$ 256,222</u>	<u>\$ 346,871</u>

Town of Emerald Isle, North Carolina
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011

	Special Revenue Fund	Capital Project Funds		
	Special Drug Fund	Eastern EI Storm Water Fund	NC 58 Bicycle Path	Bicycle Path and Sidewalks Project Fund
Revenues:				
Restricted revenue	\$ 8,944	\$ 22,960	\$ -	\$ -
Investment earnings	22	-	-	-
Donations and miscellaneous	-	-	1,374	53
Total revenue	<u>8,966</u>	<u>22,960</u>	<u>1,374</u>	<u>53</u>
Expenditures:				
Economic development	-	28,093	26,500	-
Total expenditures	<u>-</u>	<u>28,093</u>	<u>26,500</u>	<u>-</u>
Revenues over (under) expenditures	<u>8,966</u>	<u>(5,133)</u>	<u>(25,126)</u>	<u>53</u>
Other financing sources (uses):				
Transfers:				
Transfer to other funds	-	-	-	-
Proceeds from installment purchase	-	-	-	-
Transfers from other funds	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ 8,966</u>	<u>\$ (5,133)</u>	<u>\$ (25,126)</u>	<u>\$ 53</u>
Fund balance, beginning	<u>29,557</u>	<u>(5,765)</u>	<u>(35,058)</u>	<u>-</u>
Fund balance, ending	<u>\$ 38,523</u>	<u>\$ (10,898)</u>	<u>\$ (60,184)</u>	<u>\$ 53</u>

Capital Project Funds

Beach Nourishment Monitoring	Archers Creek Storm Water Fund	Town Administration Office Building	NC 58 Multiuse Path	Coast Guard Road Multiuse Path	Coast Guard Road Storm Water Phase IV	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 22,629	\$ -	\$ 54,533
-	-	-	-	-	-	22
-	-	-	-	-	-	1,427
-	-	-	-	22,629	-	55,982
-	-	28,958	12,308	44,946	41,928	182,733
-	-	28,958	12,308	44,946	41,928	182,733
-	-	(28,958)	(12,308)	(22,317)	(41,928)	(126,751)
(31)	-	-	-	-	(78,602)	(78,633)
-	-	-	-	-	-	-
-	-	-	32,000	25,500	375,000	432,500
(31)	-	-	32,000	25,500	296,398	353,867
\$ (31)	\$ -	\$ (28,958)	\$ 19,692	\$ 3,183	\$ 254,470	\$ 227,116
31	25,000	30,302	-	-	-	44,067
\$ -	\$ 25,000	\$ 1,344	\$ 19,692	\$ 3,183	\$ 254,470	\$ 271,183

Town of Emerald Isle, North Carolina
Special Drug Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Restricted intergovernmental:			
Control substance tax	\$ -	\$ 8,943	\$ (8,943)
Investment earnings	-	22	(22)
	<u>-</u>	<u>8,965</u>	<u>(8,965)</u>
Total revenue			
	<u>-</u>	<u>8,965</u>	<u>(8,965)</u>
Expenditures:			
Capital outlay	29,000	-	29,000
	<u>29,000</u>	<u>-</u>	<u>29,000</u>
Total expenditures			
	<u>29,000</u>	<u>-</u>	<u>29,000</u>
Revenues over (under) expenditures	<u>(29,000)</u>	<u>8,965</u>	<u>20,035</u>
Fund balance appropriated	<u>29,000</u>	<u>-</u>	<u>(29,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 8,965</u>	<u>\$ (8,965)</u>
Fund balance, beginning		<u>29,557</u>	
Fund balance, ending		<u>\$ 38,522</u>	

**Town of Emerald Isle, North Carolina
Eastern EI Stormwater Outfall Project
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011**

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Grants	\$ 97,000	\$ -	\$ 22,960	\$ 22,960	\$ (74,040)
Total revenue	97,000	-	22,960	22,960	(74,040)
Expenditures:					
Detailed design/engineering	23,925	-	28,093	28,093	(4,168)
Construction and improvements	73,075	5,765	-	5,765	67,310
Total expenditures	97,000	5,765	28,093	33,858	63,142
Revenues under expenditures	-	(5,765)	(5,133)	(10,898)	(10,898)
Net change in fund balance	\$ -	\$ (5,765)	\$ (5,133)	\$ (10,898)	\$ (10,898)
Fund balance, beginning			(5,765)		
Fund balance, ending			\$ (10,898)		

Town of Emerald Isle, North Carolina
NC 58 Bicycle Path
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Grants	\$ 500,000	\$ 411,813	\$ -	\$ 411,813	\$ (88,187)
Donations	-	757	1,374	2,131	2,131
Total revenue	500,000	412,570	1,374	413,944	(86,056)
Expenditures:					
Engineering/design/permitting	50,300	48,894	1,373	50,267	33
Surveys	17,400	17,355	-	17,355	45
Construction	495,800	446,768	23,514	470,282	25,518
Utility relocation	23,500	21,625	1,613	23,238	262
Miscellaneous	6,214	6,200	-	6,200	14
Total expenditures	593,214	540,842	26,500	567,342	25,872
Revenues under expenditures	(93,214)	(128,272)	(25,126)	(153,398)	(60,184)
Other financing sources:					
Transfers:					
From Coast Guard storm water Phase II	31,364	31,364	-	31,364	-
From General fund	40,000	40,000	-	40,000	-
From Coast Guard storm water Phase III	21,850	21,850	-	21,850	-
Total other financing sources	93,214	93,214	-	93,214	-
Net change in fund balance	\$ -	\$ (35,058)	\$ (25,126)	\$ (60,184)	\$ (60,184)
Fund balance, beginning			(35,058)		
Fund balance, ending			\$ (60,184)		

**Town of Emerald Isle, North Carolina
Bicycle Path and Sidewalks Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011**

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Donations	\$ 11,776	\$ 11,776	\$ 53	\$ 11,829	\$ 53
Total revenue	11,776	11,776	53	11,829	53
Expenditures:					
Engineering/design/permitting	33,296	33,296	-	33,296	-
Other	3,405	3,405	-	3,405	-
Total expenditures	36,701	36,701	-	36,701	-
Revenues over (under) expenditures	(24,925)	(24,925)	53	(24,872)	53
Other financing sources:					
Transfers:					
From NC 58 bicycle path	5,116	5,116	-	5,116	-
From NC 58 sidewalk	11,659	11,659	-	11,659	-
From Coast Guard Road storm water Phase III	8,150	8,150	-	8,150	-
Total other financing sources	24,925	24,925	-	24,925	-
Net change in fund balance	\$ -	\$ -	\$ 53	\$ 53	\$ 53
Fund balance, beginning			-		
Fund balance, ending			\$ 53		

Town of Emerald Isle, North Carolina
Beach Nourishment Monitoring
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Investment earnings	\$ 34,678	\$ 34,691	\$ -	\$ 34,691	\$ 13
Total revenue	34,678	34,691	-	34,691	13
Expenditures:					
Environmental monitoring	571,178	580,299	-	580,299	(9,121)
Beach/sediment surveys	5,000	5,000	-	5,000	-
Aerial photography	62,000	61,026	-	61,026	974
Aquaculture study	152,500	150,975	-	150,975	1,525
Waterbird management plan	151,000	144,360	-	144,360	6,640
Total expenditures	941,678	941,660	-	941,660	18
Revenues under expenditures	(907,000)	(906,969)	-	(906,969)	31
Other financing sources:					
Proceeds from general obligation	600,000	600,000	-	600,000	-
Transfers:					
To general fund	-	-	(31)	(31)	31
From general fund	55,535	55,535	-	55,535	-
From beach nourishment DSR fund	134,000	134,000	-	134,000	-
From beach nourishment bond fund	114,655	114,655	-	114,655	-
From beach nourishment east fund	2,810	2,810	-	2,810	-
Total other financing sources	907,000	907,000	(31)	906,969	31
Net change in fund balance	\$ -	\$ 31	\$ (31)	\$ -	\$ -
Fund balance, beginning			31		
Fund balance, ending			\$ -		

Town of Emerald Isle, North Carolina
Archers Creek Storm Water Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Clean Water Mgmt Trust Fund Grant	\$ 75,000	\$ -	\$ -	\$ -	\$ (75,000)
Total revenue	75,000	-	-	-	(75,000)
Expenditures:					
Engineering/design/permitting	100,000	-	-	-	100,000
Total expenditures	100,000	-	-	-	100,000
Revenues under expenditures	(25,000)	-	-	-	25,000
Other financing sources:					
Transfers:					
From General fund	25,000	25,000	-	25,000	-
Total other financing sources	25,000	25,000	-	25,000	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 25,000</u>	\$ -	<u>\$ 25,000</u>	<u>\$ 25,000</u>
Fund balance, beginning			25,000		
Fund balance, ending			<u>\$ 25,000</u>		

Town of Emerald Isle, North Carolina
Town Administration Office Building
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Miscellaneous	\$ 3,848	\$ 3,848	\$ -	\$ 3,848	\$ -
Total revenue	3,848	3,848	-	3,848	-
Expenditures:					
Design/construction	969,848	939,546	28,958	968,504	1,344
Total expenditures	969,848	939,546	28,958	968,504	1,344
Revenues under expenditures	(966,000)	(935,698)	(28,958)	(964,656)	1,344
Other financing sources:					
Installment financing	875,000	875,000	-	875,000	-
Transfers:					
From General fund	91,000	91,000	-	91,000	-
Total other financing sources	966,000	966,000	-	966,000	-
Net change in fund balance	\$ -	\$ 30,302	\$ (28,958)	\$ 1,344	\$ 1,344
Fund balance, beginning			30,302		
Fund balance, ending			\$ 1,344		

Town of Emerald Isle, North Carolina
NC 58 Multiuse Path
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Grants	\$ 50,000	\$ -	\$ -	\$ -	\$ (50,000)
Total revenue	50,000	-	-	-	(50,000)
Expenditures:					
Engineering/design/permitting	11,500	-	12,308	12,308	(808)
Construction	70,500	-	-	-	70,500
Total expenditures	82,000	-	12,308	12,308	69,692
Revenues under expenditures	(32,000)	-	(12,308)	(12,308)	19,692
Other financing sources:					
Transfers:					
From General fund	32,000	-	32,000	32,000	-
Total other financing sources	32,000	-	32,000	32,000	-
Net change in fund balance	\$ -	\$ -	\$ 19,692	\$ 19,692	\$ 19,692
Fund balance, beginning			-		
Fund balance, ending			\$ 19,692		

Town of Emerald Isle, North Carolina
Coast Guard Road Multiuse Path
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Donations	\$ 21,000	\$ -	\$ 22,629	\$ 22,629	\$ 1,629
Total revenue	21,000	-	22,629	22,629	1,629
Expenditures:					
Construction	46,500	-	44,946	44,946	1,554
Total expenditures	46,500	-	44,946	44,946	1,554
Revenues over (under) expenditures	(25,500)	-	(22,317)	(22,317)	3,183
Other financing sources:					
Transfers:					
From General fund	25,500	-	25,500	25,500	-
Total other financing sources	25,500	-	25,500	25,500	-
Net change in fund balance	\$ -	\$ -	\$ 3,183	\$ 3,183	\$ 3,183
Fund balance, beginning			-		
Fund balance, ending			\$ 3,183		

Town of Emerald Isle, North Carolina
Coast Guard Road Storm Water Phase IV
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2011

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Expenditures:					
Design and permitting	\$ 67,500	\$ -	\$ 41,928	\$ 41,928	\$ 25,572
Construction	228,898	-	-	-	228,898
Total expenditures	296,398	-	41,928	41,928	254,470
Revenues under expenditures	(296,398)	-	(41,928)	(41,928)	(254,470)
Other financing sources:					
Transfers:					
From General fund	375,000	-	375,000	375,000	-
To Public Boat Launch Fund	(78,602)	-	(78,602)	(78,602)	-
Total other financing sources	296,398	-	296,398	296,398	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 254,470</u>	<u>\$ 254,470</u>	<u>\$ (254,470)</u>
Fund balance, beginning			<u>-</u>		
Fund balance, ending			<u>\$ 254,470</u>		

**Town of Emerald Isle, North Carolina
Homeowner's Recovery Fund
Statement of Changes in Assets and Liabilities
For the Fiscal Year Ended June 30, 2011**

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
Assets, cash and investments	\$ 745	\$ 770	\$ 610	\$ 905
Liabilities, accounts payable, and accrued liabilities	\$ 745	\$ 770	\$ 610	\$ 905

Town of Emerald Isle, North Carolina
Homeowner's Recovery Fund
Statement of Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 2011

Cash receipts:

Collection of homeowner's recovery fees	\$	770
		770

Cash disbursements:

General fund administration fee	\$	61
Remittance to NC licensing board		549
Total disbursements		610

Net cash receipts over cash disbursements		160
---	--	-----

Beginning cash balance		745
Ending cash balance	\$	905

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Other Schedules

This section contains additional financial information that provides detailed analysis of particular aspects of the Town's financial position or results of operation.

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

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Town of Emerald Isle, North Carolina
Schedule of Ad Valorem Taxes Receivable
For the Fiscal Year Ended June 30, 2011

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections And Credits	Uncollected Balance June 30, 2011
2010-2011	\$ -	\$ 5,667,835	\$ (5,626,940)	\$ 40,895
2009-2010	29,606	-	(23,321)	6,285
2008-2009	3,886	-	(153)	3,733
2007-2008	240	-	(12)	228
2006-2007	1,906	-	(437)	1,469
2005-2006	1,916	-	-	1,916
2004-2005	258	-	-	258
2003-2004	111	-	-	111
2002-2003	112	-	-	112
2001-2002	42	-	-	42
2000-2001	416	-	-	416
	\$ 38,493	\$ 5,667,835	\$ (5,650,863)	\$ 55,465
				(7,945)
				\$ 47,520
Reconciliation with revenues:				
				\$ 3,418,108
				2,236,398
				(9,200)
				5,557
				\$ 5,650,863

Town of Emerald Isle, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2011

	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	\$ 4,228,182,592	0.080	\$ 3,382,546	\$ 3,346,148	\$ 36,398
Special district taxes			2,269,165	2,262,598	6,567
Total	4,228,182,592		5,651,711	5,608,746	42,965
Discoveries:					
Current year taxes	26,158,042	0.080	20,926	20,531	395
Special district taxes			13,913	13,836	77
Total	26,158,042		34,839	34,367	472
Abatements:					
Current year taxes	(15,774,119)	0.080	(12,619)	(11,098)	(1,521)
Special district taxes			(6,096)	(5,892)	(204)
Total	(15,774,119)		(18,715)	(16,990)	(1,725)
Total property valuation	\$ 4,238,566,515				
Net levy			5,667,835	5,626,123	41,712
Uncollected taxes at June 30, 2011			(40,895)	(36,968)	(3,927)
Current year's taxes collected			\$ 5,626,940	\$ 5,589,155	\$ 37,785
Current levy collection percentage			99.28%	99.34%	90.59%

Compliance Section

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WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

**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**

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

We have audited the accompanying financial statements of the governmental activities each major fund, and the aggregated remaining fund information of the Town of Emerald Isle, North Carolina, as of and for the year ended June 30, 2011, which collectively comprises the Town of Emerald Isle's basic financial statements, and have issued our report thereon dated October 14, 2011. 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.

Internal Control Over Financial Reporting

Management of the Town of Emerald Isle is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Emerald Isle's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Emerald Isle'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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Emerald Isle's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreement, 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.

This report is intended solely for the information and use of management, others within the organization, members of the Town Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams · Scarborough · Smith · Gray, LLP

Williams · Scarborough · Smith · Gray, LLP
October 14, 2011



WILLIAMS · SCARBOROUGH · SMITH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
Charles S. Smith, CPA
W. Randall Gray, CPA

**Report on Compliance with Requirements Applicable to Each Major State Program and
Internal Control Over Compliance in Accordance with Applicable Sections of OMB
Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the Town of Emerald Isle, North Carolina, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and 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 Emerald Isle's major federal programs for the year ended June 30, 2011. The Town of Emerald Isle's major state programs are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of the Town of Emerald Isle's management. Our responsibility is to express an opinion on the Town of Emerald Isle's compliance based on our audit.

We conducted our audit of compliance in accordance with the 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 the major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Emerald Isle'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. Our audit does not provide a legal determination of the Town of Emerald Isle's compliance with those requirements.

In our opinion, the Town of Emerald Isle complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the Town of Emerald Isle is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Town of Emerald Isle's internal control over compliance with requirements that could have a direct and material effect on a major state program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 City'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 federal 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 federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, members of Town Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams Scarborough Smith Gray, LLP

Williams · Scarborough · Smith · Gray, LLP
October 14, 2011

Town of Emerald Isle, North Carolina
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2011

Section II – Financial Statement Findings

None reported.

Section IV – State Award Findings and Questioned Costs

None reported.

TOWN OF EMERALD ISLE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2011

<u>Grantor/Pass-through Grantor/Program Title</u> 1(a)	<u>Federal CFDA Number</u> 1(b)	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u> 1(c) (d), 2	<u>State Expenditures</u> 1 (d)	<u>Local Expenditures</u> 1 (d)
Federal Grants:					
Cash Programs:					
<u>U.S. Department of the Interior Fish and Wildlife Service</u>					
Undesirable/Noxious Plant Species Beach Vitex Eradication Project			8,458	-	-
<u>U.S. Department of Homeland Security</u>					
<u>Federal Emergency Management Agency</u>					
Passed-through U.S. Fire Association Fire Assistance Grant	97.044		-	-	4,596
<u>ARRA - U.S. Department of Transportation</u>					
<u>Federal Highway Administration</u>					
Passed-through N.C. Department of Transportation Highway Planning and Construction	20.205	42386.3.ST1	156,030	-	
			<u>164,488</u>	<u>-</u>	<u>4,596</u>
Total assistance - federal programs			<u>164,488</u>	<u>0</u>	<u>9,192</u>
State Grants:					
Cash Assistance:					
<u>N.C. Department of Environment and Natural Resources:</u>					
Passed-through:					
Wildlife Resources Commission Division of Marine Fisheries Marine Resources Fund Parks and Recreation Trust Fund Division of Coastal Management Public Boat Launching Facility				562,344	107,143
<u>N.C. Department of Transportation</u>					
Powell Bill	DOT-4	N/A	-	20,019	-
Total assistance - State programs			<u>-</u>	<u>582,363</u>	<u>107,143</u>
Total assistance			<u>\$ 164,488</u>	<u>\$ 582,363</u>	<u>\$ 116,335</u>

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

1.

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Emerald Isle 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.