

# TOWN OF OAK ISLAND NORTH CAROLINA



**ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**Town of Oak Island, North Carolina**  
**List of Principal Officials**  
**June 30, 2012**

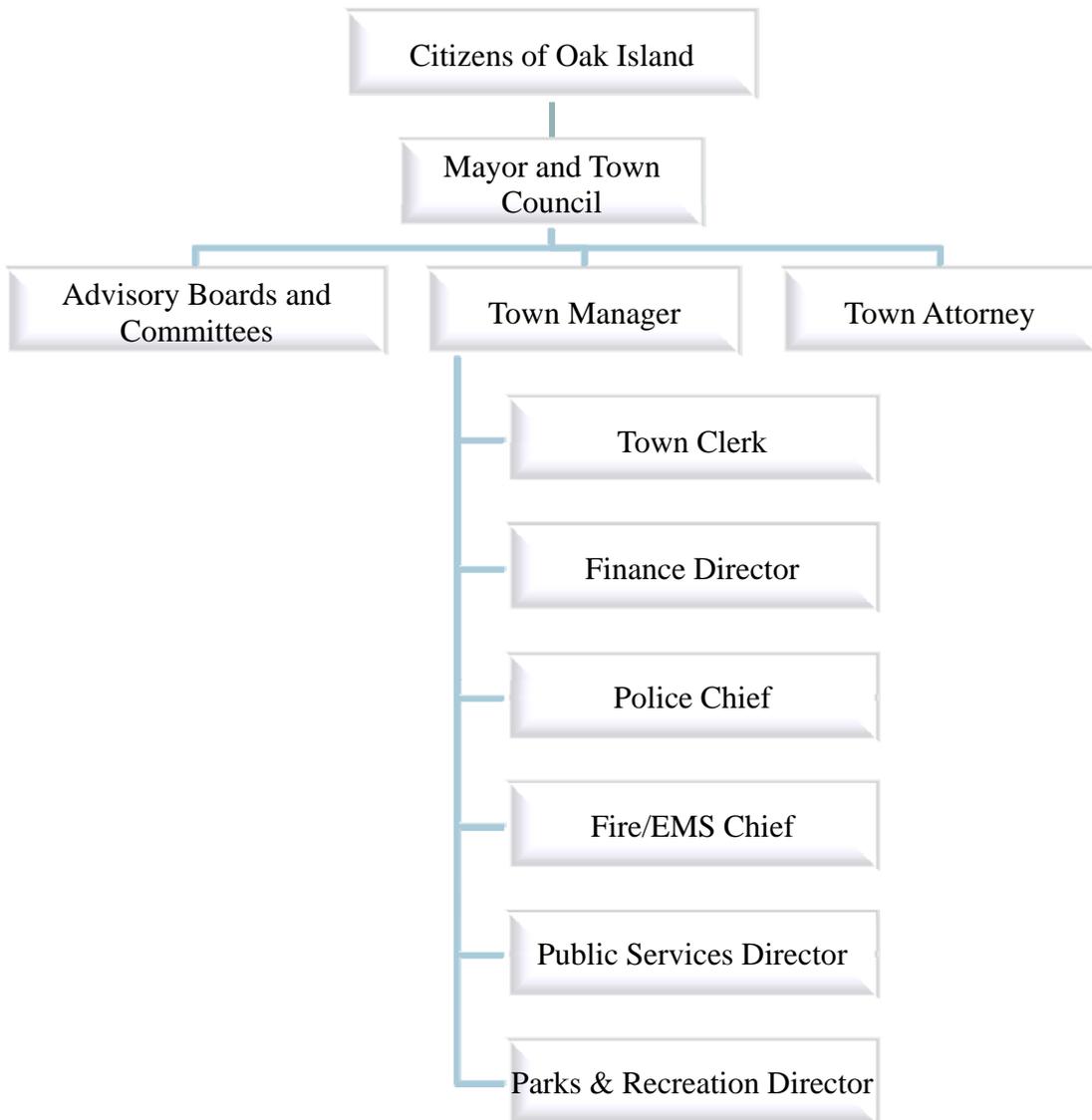
Mayor and Town Council

Betty W. Wallace, Mayor  
James B. Medlin, Mayor Pro Tem  
Dara F. Royal  
Carol Painter  
Danny Kiser  
Jeff Winecoff

Town Officials

Tom Hogg	Interim Town Manager
Lisa Stites	Town Clerk
Van Eddinger	Chief of Police
Chris Anselmo	Interim Fire Chief
Eugene Kudgus	Public Services Director
Bonnie M. Schwerd	Finance Director
David Kelly	Public Utilities Director
Kellie Beeson	Parks and Recreation Director
Sheila Bell	Tax Collector/Customer Service

**Town of Oak Island, North Carolina**  
**Organizational Chart**  
**June 30, 2012**



## **Financial Section**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the  
Town Council  
Town of Oak Island, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Oak Island, North Carolina as of and for the year ended June 30, 2012, 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 Oak Island's management. Our responsibility is to express opinions on these basic 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. The financial statements of the Town of Oak Island Board of Alcoholic Control were not audited in accordance with *Government Auditing Standards*. 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 opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Oak Island, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, 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 May 28, 2013 on our consideration of the Town of Oak Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedule of Funding Progress and Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or

historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Oak Island, North Carolina. The combining and individual non-major fund financial statements, budgetary schedules and other schedules and the introductory and statistical sections, as well as the accompanying schedule of expenditures of federal and State awards 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by the 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, and is also not as required part of the basic financial statements. The combining and individual non-major fund financial statements budgetary schedules, 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and State awards are stated in all material respects in relation to the basic financial statements as a whole.

  
Certified Public Accountants

May 28, 2013

## **Management's Discussion and Analysis**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Oak Island, we offer readers of the Town of Oak Island's financial statements this narrative overview and analysis of the financial activities of the Town of Oak Island for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

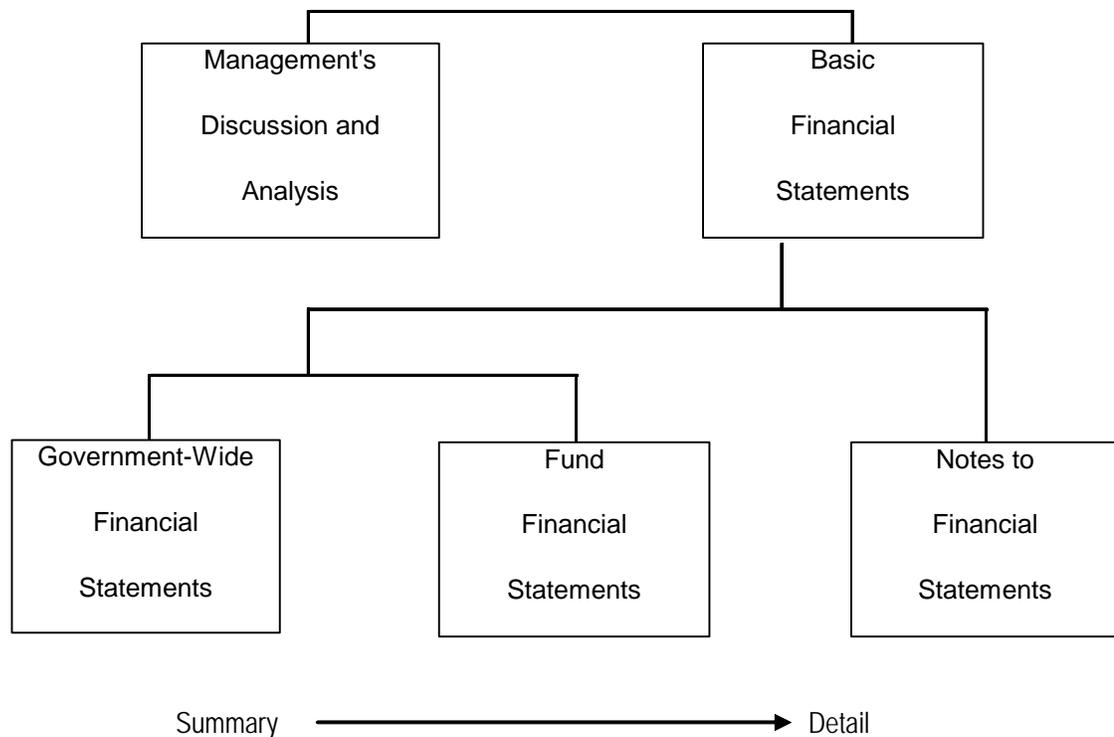
- The assets of the Town of Oak Island exceeded its liabilities at the close of the fiscal year by \$74,219,471 (net assets).
- The government's total net assets decreased by \$3,659,079. This primary driver in this decrease was a net operating loss in the Town's Business-type Activities, which are comprised of the Water, Wastewater, Solid Waste and Golf Course Funds.
- As of the close of the current fiscal year, the Town of Oak Island's governmental funds reported combined ending fund balances of \$9,533,520, with a net decrease of \$1,085,483 in fund balance. Approximately 55.7 percent of this total amount, or \$5,314,203, is classified as non spendable or restricted.
- At the end of the current fiscal year, fund balance for the General Fund not classified as restricted, non-spendable or committed was \$3,372,614, or 20.5% percent of general fund expenditures net of transfers for the fiscal year.
- The Town's fund balance available for appropriation was \$3,797,753 or 28.34% of general fund expenditures, while total fund balance available for appropriation including restricted cash and investments represented \$4,465,453, which represented 33.32% of the total general fund expenditures.
- The Town of Oak Island's total debt decreased by \$828,525 (less than 1%) during the current fiscal year. This net decrease was the result of paying down bond, installment and capital lease debt while also issuing additional installment debt and receiving additional State Revolving Loan Fund proceeds during the fiscal year.
- The Town of Oak Island was able to comply with the rate covenants as defined in the Revenue Bonds Trust Agreement.
- Moody's reviewed the Town's bond rating during fiscal year 2012 and reaffirmed the Town's A2 Enterprise System Bond Rating.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Oak Island's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Oak Island.

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The final 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. Following the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina 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 private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, transportation, environmental protection and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water, wastewater, solid waste and golf course services offered by the Town of Oak Island. The final category is the component unit. Although legally separate from the town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

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

## **Fund Financial Statements**

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Oak Island, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Oak Island can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental Funds:** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net 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 Oak Island adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the council; 2) the final budget as amended by the council; 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 Oak Island has one type of proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Oak Island uses enterprise funds to account for its water, wastewater, solid waste and golf course operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and the wastewater operations, both of which are considered to be major funds of the Town. Conversely, the solid waste and golf course operations are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the solid waste and golf course funds is provided in the form of combining statements elsewhere in this report.

**Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Oak Island has one fiduciary fund, which is used for funds collected by the Town for fines and forfeitures but due to the Board of Education in accordance with the laws set forth in the Constitution of the State of North Carolina.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the financial statements in this report.

**Other Information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town of Oak Island's progress in funding its obligation to provide pension benefits to its public safety employees and other post-employment health benefits to employees. Required supplementary information can be found beginning on Exhibit A-1 of this report.

## Government-Wide Financial Analysis

Figure 2

Town of Oak Island Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 10,838,432	\$ 11,957,037	\$ 33,922,215	\$ 40,532,005	\$ 44,760,647	\$ 52,489,042
Capital assets	32,146,221	32,630,396	119,776,767	119,194,861	151,922,988	151,825,257
<b>Total assets</b>	<b>42,984,653</b>	<b>44,587,433</b>	<b>153,698,982</b>	<b>159,726,866</b>	<b>196,683,635</b>	<b>204,314,299</b>
Long-term liabilities outstanding	14,957,986	16,168,602	104,556,907	104,031,662	119,514,893	120,200,264
Other liabilities	1,257,591	1,501,207	1,691,680	4,734,278	2,949,271	6,235,485
<b>Total liabilities</b>	<b>16,215,577</b>	<b>17,669,809</b>	<b>106,248,587</b>	<b>108,765,940</b>	<b>122,464,164</b>	<b>126,435,749</b>
Net assets:						
Invested in capital assets,						
net of related debt	18,239,987	17,522,549	22,380,413	22,390,247	40,620,400	39,912,796
Restricted	5,288,746	6,567,058	20,509,542	30,693,040	25,798,288	37,260,098
Unrestricted	3,240,343	2,828,017	4,560,440	(2,122,361)	7,800,783	705,656
<b>Total net assets</b>	<b>\$ 26,769,076</b>	<b>\$ 26,917,624</b>	<b>\$ 47,450,395</b>	<b>\$ 50,960,926</b>	<b>\$ 74,219,471</b>	<b>\$ 77,878,550</b>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Oak Island exceeded liabilities by \$74,219,471 as of June 30, 2012. The Town's net assets decreased by \$3,659,079 for the fiscal year ended June 30, 2012. The most substantial part of this decrease in net assets is generated from the Town's Wastewater operations. The Town's investment in capital assets (e.g., land, buildings, machinery, equipment and utilities); less any related debt still outstanding that was issued to acquire those items is \$40,620,400. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to repay these liabilities. An additional portion of the Town's net assets, in the amount of \$25,798,288, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,800,783 is unrestricted.

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

- The Town adopted a Fiscal Year 2012 budget with a revenue neutral tax rate of 27.5 cents per \$100 valuation.
- After a two-year trend of declining accommodations tax revenues in the fiscal years ending in 2009 and 2010, which was attributed to the global economic downturn, the accommodations tax revenues on short-term rental property increased 7.1% in FY 2011 and climbed another 12.4% in the fiscal year ending June 30, 2012.
- Sales Taxes continue the multi-year pattern of declines with the FY 2012 numbers coming in at an 11.1% decrease from FY 2011.
- The Town Fire Department continued to receive funds under federal FEMA grants this year to assist with the firefighter salaries and the purchase of various equipment and necessary supplies.
- The Town has continued to identify methods to reduce expenditures across all functions of the Town including the reduction of personnel costs through efforts such as reductions in force and the suspension of merit raises.

Figure 3

Town of Oak Island's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,110,379	\$ 2,228,229	\$ 9,761,791	\$ 6,381,406	\$ 11,872,170	\$ 8,609,635
Operating grants and contributions	629,907	785,599	49,909	5,825	\$ 679,816	791,424
Capital grants and contributions	16,236	129,225	3,240,574	34,194,519	\$ 3,256,810	34,323,744
General revenues:						
Property taxes	6,866,837	6,699,824	-	-	\$ 6,866,837	6,699,824
Local option sales tax	1,458,619	1,639,858	-	-	\$ 1,458,619	1,639,858
Accommodation tax	1,068,434	950,143	-	-	\$ 1,068,434	950,143
Grants and contributions not restricted to specific programs						
	613,268	610,523	-	-	\$ 613,268	610,523
Other	139,575	143,195	14,140	20,496	\$ 153,715	163,691
<b>Total revenues</b>	<b>\$ 12,903,255</b>	<b>\$ 13,186,596</b>	<b>\$ 13,066,414</b>	<b>\$ 40,602,246</b>	<b>\$ 25,969,669</b>	<b>\$ 53,788,842</b>
<b>Expenses:</b>						
General government	\$ 2,736,737	\$ 2,778,225	\$ -	\$ -	\$ 2,736,737	\$ 2,778,225
Public safety	5,466,506	5,627,760	-	-	5,466,506	5,627,760
Transportation	2,596,254	1,175,304	-	-	2,596,254	1,175,304
Environmental protection	226,484	186,828	-	-	226,484	186,828
Cultural and recreation	1,264,990	1,260,386	-	-	1,264,990	1,260,386
Interest on long-term debt	600,751	654,795	-	-	600,751	654,795
Water	-	-	2,400,664	2,384,420	2,400,664	2,384,420
Wastewater	-	-	13,052,025	9,135,515	13,052,025	9,135,515
Nonmajor funds	-	-	1,251,256	1,185,626	1,251,256	1,185,626
<b>Total expenses</b>	<b>\$ 12,891,722</b>	<b>\$ 11,683,298</b>	<b>\$ 16,703,945</b>	<b>\$ 12,705,561</b>	<b>\$ 29,595,667</b>	<b>\$ 24,388,859</b>
<b>Increase in net assets before transfers</b>						
	11,533	1,503,298	\$ (3,637,531)	\$ 27,896,685	\$ (3,625,998)	\$ 29,399,983
Transfers	(127,000)	977,705	127,000	(977,705)	-	-
Extraordinary item: environmental remediation costs						
	(33,081)	(21,022)	-	-	(21,022)	(21,022)
<b>Increase in net assets</b>	<b>(148,548)</b>	<b>2,459,981</b>	<b>(3,510,531)</b>	<b>26,918,980</b>	<b>(3,659,079)</b>	<b>29,378,961</b>
Net assets, July 1	26,917,624	24,457,643	\$ 50,960,926	24,041,946	77,878,550	48,499,589
Net assets, June 30	<b>\$ 26,769,076</b>	<b>\$ 26,917,624</b>	<b>\$ 47,450,395</b>	<b>\$ 50,960,926</b>	<b>\$ 74,219,471</b>	<b>\$ 77,878,550</b>

**Governmental activities:** Governmental activities decreased the Town's net assets by \$148,548, accounting for 4.1% of the total decline in the government's net assets. Key elements of this net decrease are as follows:

- The Town saw an increase of \$167,013 in property tax revenues in fiscal year 2012 as a result of small increases in the valuation and collection rates from FY 2011.
- In fiscal year 2012, the Town completed the first phase of a major street repair and improvement project within the Town. This \$1.48 Million project was completed in May of 2012 with State Powell Bill Funds that had been saved for the past few years for that purpose.

- The Town's sales tax revenues continued trending down at \$181,239 lower than the prior year's level.
- The Town experienced a 12.4% increase in accommodation tax revenues collected during the current fiscal year. This upward trend is attributed to increased collection efforts and tourism-based economic growth.
- The Town continues to reduce budgeted expenditures across all functions of the government and continues to look for ways to reduce costs. Travel budgets were reduced for FY 2012 with travel costs being limited to amounts necessary for employees to maintain required work certifications. The Town funded only capital outlay items that were deemed absolutely necessary.
- The large prior year transfer from the enterprise funds to the governmental funds was eliminated and transfers of governmental funds totaling \$127,000 were made to support the Golf Course and Solid Waste operations.
- Environmental remediation costs are due to monitoring requirements for the Police Headquarters' site where soil contamination was found during the construction period in previous years.

**Business-type activities:** Business-type activities decreased the Town of Oak Island's net assets by \$3,510,531, accounting for 95.9% of the total decline in the government's net assets. The key elements of this net decrease are as follows:

- Due to the new wastewater system starting up and the connection of new customers to the system, the Town saw an increase of \$3.38M in total enterprise system service charges. While this increase brought the revenues much closer to those projected for the systems, the operating expenses still exceeded the revenues in the Wastewater Fund by roughly \$3.9M and this netted with small gains in the Water and Non-Major funds caused the system to finish with an operating loss of \$3,637,531 prior to interfund transfers.
- The Town received additional grant and loan proceeds for the Wastewater Capital Project during Fiscal Year 2012 including a NC Rural Center grant in the amount of \$500,000 and additional NC State Revolving Loan Funds of \$1,799,811.

### **Financial Analysis of the Town's Funds**

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

**Governmental Funds:** The focus of the Town of Oak Island's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Oak Island's financing requirements.

The general fund is the chief operating fund of the Town of Oak Island. At the end of the current fiscal year, the Town's fund balance available for appropriation in the General Fund was \$4,465,463 including restricted cash and \$3,797,753 net thereof. The total fund balance was \$5,204,841. The Governing Body of the Town of Oak Island has determined that the Town should strive to maintain an available fund balance of 25% of general fund budget in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 28.34% of general fund expenditures, while total fund balance available for appropriation including restricted cash and investments represents 33.32% of the total general fund expenditures. Through conservative revenue estimates, reductions in general fund expenditures and use of grant opportunities, the Town was able to reach its targeted level of funds available for appropriation. This is well above the regulatory suggested minimum level of one month's operating cash, at 8%.

At June 30, 2012, the governmental funds of the Town of Oak Island reported a combined fund balance of \$9,533,520 with a net decrease in fund balance of \$1,085,483. Included in this change in fund balance are the net effects of a decrease in General Fund balance together with increases in Other Governmental Funds. This decrease

in the General Fund can be attributed to the use of roughly \$1.5M in restricted Powell Bill funds for a street paving project within the Town.

**General Fund Budgetary Highlights:** During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

In Fiscal Year 2012, the significant amendments to the budget reduced appropriations in efforts to decrease allowable expenses in line with the lower level of recognized revenues for the fiscal year. Additional changes were made to supply the various needs that support the functions of the departments and to appropriate special revenues received for specific purposes.

**Proprietary Funds:** The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water Fund at the end of the fiscal year amounted to \$3,798,760, and those for the Wastewater Fund amounted to \$420,825. The total change in net assets for both funds was \$459,514 and \$(3,869,535) respectively. The net assets of the non-major proprietary funds, which include the Solid Waste and South Harbour Golf Course Funds, amounted to \$340,855, which represents a \$100,510 decrease from the prior year. The total change in net assets for the proprietary funds was a decrease of \$3,510,531. This net decrease in assets was driven by net losses related to insufficient user charges and the high level of interest expense related to the Wastewater System debt service. The Town used excess revenues from Sewer Assessments received in prior years to cover these losses and maintain the necessary Cash and Debt Covenant coverage levels during the fiscal year.

### **Capital Asset and Debt Administration**

**Capital assets:** The Town of Oak Island's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$151,922,988 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, vehicles, and utility systems.

Major capital asset transactions during the year include the following additions:

- Construction in Progress for the Wastewater Project in the amount of \$2,527,907.
- The purchase of 4 new vehicles for the police department at a total cost of \$120,859.
- The purchase of 2 used ambulances and one used fire truck for a total of \$325,348.
- The Town's share of the relocation of water lines along the bridge corridor in the amount of \$425,698.

Figure 4

Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 9,499,923	\$ 9,499,923	\$ 3,282,807	\$ 4,684,602	\$ 12,782,730	\$ 14,184,525
Buildings	15,031,577	15,367,992	14,215,731	13,248,187	29,247,308	28,616,179
Improvements other than buildings	1,997,227	2,122,994	98,205		2,095,432	2,122,994
Motor vehicles	323,396	308,740	67,678	87,050	391,074	395,790
Heavy motor vehicles	916,413	737,405	204,200	270,226	1,120,613	1,007,631
Equipment	489,579	615,353	6,043,383	6,795,613	6,532,962	7,410,966
Office equipment	109,774	115,070	73,471	-	183,245	115,070
Computers and electrical equipment	257,630	217,937	25,007	34,516	282,637	252,453
Infrastructure	3,270,702	3,394,982	83,940,477	83,167,225	87,211,179	86,562,207
Construction in progress	250,000	250,000	-	-	250,000	250,000
Intangible assets		-	11,825,808	10,622,045	11,825,808	10,622,045
Other non-depreciable assets		-	-	285,397	-	285,397
<b>Total</b>	<b>\$ 32,146,221</b>	<b>\$ 32,630,396</b>	<b>\$ 119,776,767</b>	<b>\$ 119,194,861</b>	<b>\$ 151,922,988</b>	<b>\$ 151,825,257</b>

Additional information on the Town's capital assets can be found in Note 5 of the Basic Financial Statements.

**Long-term debt:** As of June 30, 2012, the Town of Oak Island had bonded debt outstanding of \$90,663,348 all of which represents bonds secured solely by specified revenue sources (specifically, the Town's Utility Enterprise System revenues). The Town has no issuances of general obligation bonds, but has just over \$14M in outstanding installment purchases debt, as well as capital leases amounting to \$981,046 and revolving loan funds of \$12,604,726.

Figure 5

Town of Oak Island Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Installment purchases	\$ 13,317,800	\$ 14,777,318	\$ 781,733	\$ 584,086	\$ 14,099,533	\$ 15,361,404
Capital leases	981,046	846,226		-	981,046	846,226
Revolving loan fund		-	12,604,726	11,116,037	12,604,726	11,116,037
Revenue notes		-	315,947	473,921	315,947	473,921
Revenue bonds		-	90,663,348	91,695,537	90,663,348	91,695,537
<b>Total</b>	<b>\$ 14,298,846</b>	<b>\$ 15,623,544</b>	<b>\$104,365,754</b>	<b>\$ 103,869,581</b>	<b>\$118,664,600</b>	<b>\$ 119,493,125</b>

The Town of Oak Island's total debt decreased during the fiscal year by \$828,525, which is equivalent to less than one percent. This was the net effect of reductions to outstanding revenue bond and installment debt along with increases in capital leases and state revolving loan debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Oak Island as of June 30, 2012, is \$184,950,897. The Town's general obligation debt is equal to \$14,298,846 or 0.57% of the total assessed value of property.

Additional information regarding the Town of Oak Island's long-term debt can be found in Note 11.

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Brunswick County was 8.9% at June 30, 2012, which reflects a 1.4% decrease from a year ago. While this decrease is a positive sign, the continued high unemployment rate is indicative of the sluggish economy.
- The Town is experiencing economic trends similar to national trends, with high unemployment levels, a continued pattern of fewer new home construction projects and high property foreclosures rates.
- The Town is a resort beach community and its economy can be reflected in the accommodations taxes collected on weekly rentals. During the current fiscal year, the Town saw a 12.4% increase in accommodation tax revenues.
- The Town's population estimate for 2011 was 6,874, which is an increase of less than one percent of the population count done in 2010.

### **Budget Highlights for the Fiscal Year Ending June 30, 2013**

**Governmental Activities:** The 2012-2013 Budget was adopted with a tax rate at \$0.275 per \$100 valuation. The Town's property values increased slightly from its prior year valuation of \$2,407,882,084 to \$ 2,490,621,788. The Town adopted its FY 2012-2013 budget without the inclusion of any appropriated fund balance for budget balancing. Sales tax revenue distributions were projected to remain relatively flat for the 2012-2013 budget year; therefore, the Town projected no major increase nor decrease in this revenue source.

As a response to the uncertain economic times, the Town adopted a very conservative budget which included significant reductions in the operating expenditures in the General Fund while still maintaining similar levels of service. The Town refrained from offering any cost of living adjustments for its employees and continued to reallocate resources for better efficiency. The Town implemented a reduction in force in April of 2013 that restructured some of the Public Works division and eliminated 4 positions. Additional vacancies throughout the Town continue to be evaluated prior to permitting the filling of such positions. The Town solicited bids for employee health benefits in an attempt to manage the rising costs. Through this process, the continued use of a health reimbursement arrangement and minor changes to plan design, the Town was able to mitigate the majority of its increase in health benefits costs and continue to offer Town employees' health benefits at the Town's expense.

The Accommodations Tax Fund continues to accumulate capital reserves for future beach nourishment needs. The Restricted Accommodations Tax Cash account holds funds representing the 2% portion of the accommodations tax rate that is restricted by legislation for the purposes of beach nourishment. The remaining funds in the Accommodations Tax Cash account show those restricted for tourism activities from the 3% portion of the accommodations taxes.

**Business-Type Activities:** The base sewer rates in the Town were increased by \$5 per month for bills generated August 1 and later to provide additional revenues for the FY 2012-2013 budget. The Sewer District Fee was increased to \$576 for the fiscal year. Rate increases were also passed for Solid Waste fees and other Town enterprise activities per the Town's fee schedule.

**General-Other Council Actions/Information relative to FY 2011-2012:**

- Approved the Town's Conditional Use Permit for Farmers' Market.
- Directed staff to send out an RFP for management of the Oak Island Par 3 at South Harbour.
- Approved reduced wastewater connection fees for Ocean Crest Motel and Blue Water Point Motel.
- Approved an Annexation Ordinance to extend the Corporate Limits of the Town of Oak Island for a mainland voluntary annexation.
- Approved Resolution Confirming Assessment Roll and Levying Assessments for Phase II Sewer Service Areas 9A of the Town of Oak Island Wastewater Project.
- Approved purchase of two ambulances, fire truck and equipment; declared two vans, two ambulances and 20 other vehicles surplus.
- Authorized Contract for Paving Project.
- Approved five-year extension for permit for Midway Landing development; approved Conditional Use Permit for Island Passage mainland commercial development and preliminary plat for 211 Midway subdivision.
- Authorized expenditures toward dredging Lockwood Folly Inlet along with Holden Beach and Brunswick County.
- Approved forwarding to NCDOT the Town's only DOT priority of four-laning Midway Road.
- Revised list of responsibilities for Capital Improvement Committee members.
- Approved an agreement for secondary employment for police officers.
- Approved financing a five-year loan at 1.97 percent for fire truck and two ambulances.
- Accepted a \$39,000 grant on behalf of the NC Marine Firefighting Council.
- Approved participation in joint planning for the N.C. 211 corridor.
- Approved request from NCDOT to accept Old Bridge Road into the Town's street system.
- Approved conservation easement for the Oak Island Pier to be held by the Oak Island Land Trust, LLC.
- Approved three-year contract for legal services.
- Approved a contract with the Oak Island Golf Course for treated wastewater and requested extension for CWMTF grant.
- Approved an ordinance amendment to require property owners to sign a non-conversion agreement for areas below the lowest floor in VE flood zones.
- Adopted ordinance amendment regarding concealed weapons on Town property.
- Approved recommended response to citizen petition regarding wastewater system.

- Approved lease for Alganomics (scientific research company operating at Fish Factory Road sewer plant).
- Installed new elected officials.
- Deleted position of Capital Project Coordinator.
- Terminated employment contract of Town Manager, appointed Assistant Town Manager as Interim Town Manager, hired an Interim Town Manager.
- Approved acceptance of a repeater from Brunswick County, authorized purchase of six radios for fire department.
- Authorized Finance Officer to take appropriate action regarding sewer assessments on Town-owned properties.
- Dropped appeal in Seidner vs. Oak Island case; authorized payment for the Seidners' attorney fees during the appeal.
- Eliminated following positions: zoning administrator, urban forester, one code enforcement officer, assistant manager.
- Engaged Raftelis for an updated Financial Feasibility Evaluation (FFE) for the Town's Wastewater System.
- Approved transferring 911 communications to Brunswick County.
- Approved reorganization in the Police and Fire Departments and Development Services.
- Capped housing allowance for police officers with plan to consider it again in two years; reinstated take home policy for police vehicles.

#### Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to:

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 Town of Oak Island  
 4601 E. Oak Island Drive  
 Oak Island, N.C. 28465

Phone (910) 278-5011  
 Fax (910) 278-3400  
[sfoster@ci.oak-island.nc.us](mailto:sfoster@ci.oak-island.nc.us)

Bonnie Schwerd, Finance Director  
 Town of Oak Island  
 4601 E. Oak Island Drive  
 Oak Island, N.C. 28465

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## **Basic Financial Statements**

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Town of Oak Island  
Statement of Net Assets  
June 30, 2012

Exhibit 1

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>	<u>Oak Island ABC Board</u>
<b>ASSETS</b>				
Cash and equivalents	7,952,263	3,662,564	11,614,827	295,130
Taxes receivable, net	658,202	-	658,202	
Assessments receivable	27,107	-	27,107	
Accrued interest receivable on taxes	93,182		93,182	
Accounts receivable, net	901,737	1,401,856	2,303,593	87
Due from component unit	64,009	-	64,009	
Inventories	22,457	190,290	212,747	171,705
Prepaid items	59,163	-	59,163	11,014
Restricted cash and cash equivalents	1,060,312	9,911,097	10,971,409	127,405
Restricted receivables		16,042,332	16,042,332	
Accrued interest on restricted assets		390,223	390,223	
Deferred charges	-	2,323,853	2,323,853	
Capital Assets				
Land, non-depreciable improvements, and construction in progress	9,749,923	4,969,999	14,719,922	101,178
Other Capital Assets, net of depreciation	22,396,298	114,806,768	137,203,066	260,575
Total Capital Assets	32,146,221	119,776,767	151,922,988	361,753
Total Assets	42,984,653	153,698,982	196,683,635	967,094
<b>LIABILITIES</b>				
Accounts payable and accrued expense	378,527	351,284	729,811	208,439
Unearned revenue	14,008	36,736	50,744	-
Accrued interest payable	529,020	420,940	949,960	
Customer deposits	86,036	102,002	188,038	
Due to primary government				64,009
Claims and judgments	250,000	-	250,000	
Payable from restricted assets		780,718	780,718	
Long-term liabilities				
Due within one year	1,613,481	3,207,541	4,821,022	12,448
Due in more than one year	13,344,505	101,349,366	114,693,871	40,062
Total liabilities	16,215,577	106,248,587	122,464,164	324,958
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	18,239,987	22,380,413	40,620,400	361,753
Restricted for:				
Capital projects				
Stabilization by State Statute	713,931	-	713,931	-
Streets	667,700		667,700	
Public Safety	289,465		289,465	
Tourism	3,557,686		3,557,686	
Cultural and Recreation	59,964		59,964	
Other purposes	-	20,509,542	20,509,542	189,371
Unrestricted	3,240,343	4,560,440	7,800,783	91,012
Total net assets	26,769,076	47,450,395	74,219,471	642,136

The accompanying notes are an integral part of the financial statements.

**Town of Oak Island  
Statement of Activities  
For the Year Ended June 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenue</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary government</b>				
Governmental Activities				
General Government	2,736,737	245,924	-	1,081
Public Safety	5,466,506	1,447,452	310,842	14,026
Transportation	2,596,254	-	292,979	266
Environmental Protection	226,484	271,142	65	863
Culture and Recreation	1,264,990	145,861	26,021	-
Interest on Long-term debt	600,751	-	-	-
Total governmental activities	<u>12,891,722</u>	<u>2,110,379</u>	<u>629,907</u>	<u>16,236</u>
Business-type activities				
Water Operations	2,400,664	3,116,147	2,599	28,494
Wastewater Operations	13,052,025	5,664,011	5,623	3,212,080
Solid Waste Operations	1,004,513	845,919	40,463	-
Golf Course Operations	246,743	135,714	1,224	-
Total business-type activities	<u>16,703,945</u>	<u>9,761,791</u>	<u>49,909</u>	<u>3,240,574</u>
Total primary government	<u>29,595,667</u>	<u>11,872,170</u>	<u>679,816</u>	<u>3,256,810</u>
<b>Component Unit</b>				
Oak Island ABC Board	2,113,031	2,128,480	-	-
Total component units	<u>2,113,031</u>	<u>2,128,480</u>	<u>-</u>	<u>-</u>

General revenues:

Taxes:

  Property taxes, levied for general purposes

  Local option sales tax

  Accommodation Tax

  Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Total general revenues

Extraordinary item - pollution remediation cost:

Transfers

    Total general revenues, special items, and transfers

    Change in net assets

Net assets - beginning

Net assets - ending

<b>Net (Expense) Revenue and Changes in Net Assets:</b>			
<b>Primary Government</b>			
<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Component Units</u>
(2,489,732)		(2,489,732)	
(3,694,186)		(3,694,186)	
(2,303,009)		(2,303,009)	
45,586		45,586	
(1,093,108)		(1,093,108)	
<u>(600,751)</u>		<u>(600,751)</u>	
<u>(10,135,200)</u>		<u>(10,135,200)</u>	
	746,576	746,576	
	(4,170,311)	(4,170,311)	
	(118,131)	(118,131)	
	<u>(109,805)</u>	<u>(109,805)</u>	
	<u>(3,651,671)</u>	<u>(3,651,671)</u>	
<u>(10,135,200)</u>	<u>(3,651,671)</u>	<u>(13,786,871)</u>	
			<u>15,449</u>
			<u>15,449</u>
6,866,837	-	6,866,837	-
1,458,619	-	1,458,619	-
1,068,434	-	1,068,434	-
48,303	-	48,303	-
613,268	-	613,268	-
7,701	14,140	21,841	483
83,571	-	83,571	-
<u>10,146,733</u>	<u>14,140</u>	<u>10,160,873</u>	<u>483</u>
(33,081)		(33,081)	
<u>(127,000)</u>	<u>127,000</u>	<u>-</u>	<u>-</u>
<u>9,986,652</u>	<u>141,140</u>	<u>10,127,792</u>	<u>483</u>
(148,548)	(3,510,531)	(3,659,079)	15,932
<u>26,917,624</u>	<u>50,960,926</u>	<u>77,878,550</u>	<u>626,204</u>
<u>26,769,076</u>	<u>47,450,395</u>	<u>74,219,471</u>	<u>642,136</u>

The accompanying notes are an integral part of the financial statements.

Town of Oak Island, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2012

	<u>Major Funds</u>	<u>Non-Major Funds</u>	
		<u>Other</u>	<u>Total Governmental</u>
	<u>General Fund</u>	<u>Governmental</u>	<u>Funds</u>
		<u>Funds</u>	<u>Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	4,210,213	3,742,050	7,952,263
Restricted cash	667,700	392,612	1,060,312
Receivables, net:			
Taxes	658,202	-	658,202
Assessments	25,702	6,405	32,107
Accounts	661,575	223,313	884,888
Due from component unit	64,009		64,009
Receivable from other governments	11,849	-	11,849
Inventories	22,457		22,457
Prepays	3,000	56,163	59,163
	<u>6,324,707</u>	<u>4,420,543</u>	<u>10,745,250</u>
Total assets			
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	293,068	85,459	378,527
Customer deposits	86,036		86,036
Deferred revenue	726,754	6,405	733,159
Unearned revenue	14,008		14,008
	<u>1,119,866</u>	<u>91,864</u>	<u>1,211,730</u>
Total liabilities			
Fund balances:			
Non Spendable			
Inventories	22,457		22,457
Prepays	3,000	56,163	59,163
Restricted			
Stabilization by State Statute	713,931		713,931
Streets	667,700		667,700
Public Safety	-	289,465	289,465
Tourism		3,501,523	3,501,523
Cultural and Recreation		59,964	59,964
Committed			
Capital projects	425,139		425,139
Administration		420,784	420,784
Public Safety		780	780
Assigned			
Unassigned	3,372,614	-	3,372,614
	<u>5,204,841</u>	<u>4,328,679</u>	<u>9,533,520</u>
Total fund balances			
Total liabilities and fund balances	<u>6,324,707</u>	<u>4,420,543</u>	<u>10,745,250</u>

The accompanying notes are an integral part of the financial statements

Town of Oak Island  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2012

Total fund balance, governmental funds		9,533,520
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		32,146,221
<p>Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>		
Accrued interest receivable from taxes		93,182
Liabilities for earned but deferred revenues in the fund statements		733,159
<p>Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.</p>		
Installment notes payable	(13,622,692)	
Capitalized lease contracts payable	(676,155)	
Compensated absences payable	(399,552)	
Other postemployment benefits payable	(259,587)	
Claims and judgements payable	(250,000)	
Accrued interest payable	(529,020)	
		(15,737,006)
Net Assets of Governmental Activities in the Statement of Net Assets		26,769,076

The accompanying notes are an integral part of the financial statements.

Town of Oak Island, North Carolina  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2012

	<u>Major Funds</u>	<u>Non-Major Funds</u>	
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Ad valorem taxes	6,735,314	-	6,735,314
Other taxes and licenses	1,502,980	1,068,434	2,571,414
Unrestricted intergovernmental revenue	613,268	-	613,268
Restricted intergovernmental revenue	1,645,733	71,568	1,717,301
Permits and fees	293,638	-	293,638
Sales and services	613,350	-	613,350
Investment earnings	4,638	5,157	9,795
Miscellaneous	264,820	15,932	280,752
	<u>11,673,741</u>	<u>1,161,091</u>	<u>12,834,832</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,450,088	115,795	2,565,883
Public Safety	5,407,442	112,181	5,519,623
Transportation	2,445,600	-	2,445,600
Environmental protection	211,712	-	211,712
Cultural and recreational	907,836	162,764	1,070,600
Debt Service:			
Principal	1,642,697	-	1,642,697
Interest and other charges	655,200	-	655,200
	<u>13,720,575</u>	<u>390,740</u>	<u>14,111,315</u>
Excess (deficiency) of revenues over expenditures	<u>(2,046,834)</u>	<u>770,351</u>	<u>(1,276,483)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Debt issued	318,000	-	318,000
Transfers in	360,078	-	360,078
Transfers out	-	(487,078)	(487,078)
	<u>678,078</u>	<u>(487,078)</u>	<u>191,000</u>
Net change in fund balances	<u>(1,368,756)</u>	<u>283,273</u>	<u>(1,085,483)</u>
Fund balances - beginning	<u>6,573,597</u>	<u>4,045,406</u>	<u>10,619,003</u>
Fund balances - ending	<u>5,204,841</u>	<u>4,328,679</u>	<u>9,533,520</u>

The accompanying notes are an integral part of the financial statements.

Town of Oak Island  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 In Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds: (1,085,483)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays \$745,806 are exceeded by depreciation \$1,223,527 in the current period.

Book value of assets sold (477,721)

(6,454)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

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

Current value of donated assets

Change in deferred revenue for tax and assessment revenues 140,045

Governmental funds report debt proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of debt principal as an expenditure, in contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments.

Debt proceeds (318,000)

Debt repayments 1,642,697

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds 54,449

Compensated absences (20,720)

Other postemployment benefits (93,361)

Future environmental remediation costs 16,000

Change in net assets of governmental activities (148,548)

Town of Oak Island, North Carolina  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (with Variances)  
General Fund  
For the year ended June 30, 2012

Exhibit 5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	6,613,505	6,702,505	6,735,314	32,809
Other taxes and licenses	1,357,000	1,357,000	1,502,980	145,980
Unrestricted intergovernmental revenues	587,000	587,000	613,268	26,268
Restricted intergovernmental revenues	1,422,553	1,606,901	1,645,733	38,832
Permits and fees	252,500	252,500	293,638	41,138
Sales and services	660,730	664,354	613,350	(51,004)
Investment earnings	5,000	5,000	4,166	(834)
Miscellaneous	126,950	213,793	264,820	51,027
	<b>11,025,238</b>	<b>11,389,053</b>	<b>11,673,269</b>	<b>284,216</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,133,264	2,620,009	2,450,088	169,921
Public safety	5,419,978	5,602,960	5,407,442	195,518
Transportation	2,705,918	2,553,766	2,445,600	108,166
Environmental protection	257,000	257,000	211,712	45,288
Culture and recreation	991,885	981,391	907,836	73,555
Debt Service:				
Principal	1,644,560	1,644,570	1,642,697	1,873
Interest and other charges	672,234	672,244	655,200	17,044
Contingency	-	-	-	-
	<b>14,824,839</b>	<b>14,331,940</b>	<b>13,720,575</b>	<b>611,365</b>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	<b>(3,799,601)</b>	<b>(2,942,887)</b>	<b>(2,047,306)</b>	<b>895,581</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Fund balance appropriated	1,888,199	1,929,285	-	(1,929,285)
Debt issued	340,000	340,000	318,000	(22,000)
Transfers in	1,496,402	673,602	360,078	(313,524)
Transfers out	75,000	-	-	-
	<b>3,799,601</b>	<b>2,942,887</b>	<b>678,078</b>	<b>(2,264,809)</b>
Total other financing sources and uses				
Net change in fund balances	<b>-</b>	<b>-</b>	<b>(1,369,228)</b>	<b>(1,369,228)</b>
Fund balance - beginning			6,148,930	
Fund balance - ending			4,779,702	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			472	
Fund balance, beginning			424,667	
Fund balance - ending (Exhibit 4)			5,204,841	

The accompanying notes are an integral part of the financial statements.

Town of Oak Island, North Carolina  
Statement of Net Assets  
Proprietary Funds  
June 30, 2012

Exhibit 6

	<u>Major Funds</u>		<u>Non-Major Funds</u>	
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	3,271,136	-	391,428	3,662,564
Accounts Receivable, net	383,194	967,039	50,550	1,400,783
Other receivables	-	-	1,073	1,073
Inventories	119,339	62,651	8,300	190,290
Total current assets	<u>3,773,669</u>	<u>1,029,690</u>	<u>451,351</u>	<u>5,254,710</u>
Non-current assets:				
Restricted Assets:				
Cash and cash equivalents	407,845	9,503,252		9,911,097
Assessments receivable, net		15,974,093		15,974,093
Sewer District Fees receivable, net		68,239		68,239
Accrued interest receivable		390,223		390,223
Deferred charges:				
Bond issuance costs	-	2,323,853	-	2,323,853
Capital Assets:				
Land and construction in progress	135,068	3,433,136	1,401,795	4,969,999
Other capital assets, net of depreciation	3,647,224	110,810,676	348,868	114,806,768
Capital assets	<u>3,782,292</u>	<u>114,243,812</u>	<u>1,750,663</u>	<u>119,776,767</u>
Total non-current assets	<u>4,190,137</u>	<u>142,503,472</u>	<u>1,750,663</u>	<u>148,444,272</u>
Total assets	<u>7,963,806</u>	<u>143,533,162</u>	<u>2,202,014</u>	<u>153,698,982</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	171,314	70,743	61,580	303,637
Salaries payable	16,652	20,428	10,567	47,647
Accrued interest payable	-	420,940	-	420,940
Unearned revenue		36,238	498	36,736
Customer deposits	102,002	-		102,002
Payable from restricted assets		780,718		780,718
Compensated absences payable, current	21,009	19,263	10,773	51,045
Installment notes payable, current	141,899	90,348		232,247
Revenue notes payable, current		754,249		754,249
Revenue bonds payable, current	-	2,170,000	-	2,170,000
Total current liabilities	<u>452,876</u>	<u>4,362,927</u>	<u>83,418</u>	<u>4,899,221</u>
Non-current liabilities:				
Other postemployment benefits	50,767	22,299	17,619	90,685
Compensated absences	21,010	18,954	9,459	49,423
Installment notes payable, noncurrent	141,900	407,586		549,486
Revenue notes payable, noncurrent		12,166,424		12,166,424
Revenue bonds payable, noncurrent	-	88,493,348	-	88,493,348
Total non-current liabilities	<u>213,677</u>	<u>101,108,611</u>	<u>27,078</u>	<u>101,349,366</u>
Total liabilities	<u>666,553</u>	<u>105,471,538</u>	<u>110,496</u>	<u>106,248,587</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,498,493	17,131,257	1,750,663	22,380,413
Restricted for capital projects	-	20,509,542	-	20,509,542
Unrestricted	3,798,760	420,825	340,855	4,560,440
Total net assets	<u>7,297,253</u>	<u>38,061,624</u>	<u>2,091,518</u>	<u>47,450,395</u>

The accompanying notes are an integral part of the financial statements.

Town of Oak Island, North Carolina  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2012

Exhibit 7

	<u>Major Funds</u>		<u>Non-Major Funds</u>	<u>Total</u>
	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Other Enterprise Funds</u>	
<b>REVENUES</b>				
Charges for services	2,853,576	5,660,944	966,933	9,481,453
Other operating revenues	<u>262,571</u>	<u>3,067</u>	<u>14,700</u>	<u>280,338</u>
Total operating revenues	<u>3,116,147</u>	<u>5,664,011</u>	<u>981,633</u>	<u>9,761,791</u>
<b>OPERATING EXPENSES</b>				
Administration	176,050	-	167,156	343,206
Water purchases	755,710	-	-	755,710
Waste collection and treatment	-	4,713,407	956,424	5,669,831
Maintenance	1,290,280	145,330	69,785	1,505,395
Depreciation	<u>176,395</u>	<u>3,126,267</u>	<u>57,891</u>	<u>3,360,553</u>
Total Operating Expenses	<u>2,398,435</u>	<u>7,985,004</u>	<u>1,251,256</u>	<u>11,634,695</u>
Operating income (loss)	<u>717,712</u>	<u>(2,320,993)</u>	<u>(269,623)</u>	<u>(1,872,904)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	4,252	9,462	426	14,140
Miscellaneous revenue	-	17,779	1,224	19,003
Operating grants and contributions	2,599	5,623	40,463	48,685
Interest expense	-	(4,968,863)	-	(4,968,863)
Interest on assessments	-	1,294,371	-	1,294,371
Bond issuance costs	-	(98,158)	-	(98,158)
Miscellaneous expenses	<u>(2,229)</u>	<u>-</u>	<u>-</u>	<u>(2,229)</u>
Total non-operating revenue (expenses)	<u>4,622</u>	<u>(3,739,786)</u>	<u>42,113</u>	<u>(3,693,051)</u>
Income (loss) before contributions and transfers	722,334	(6,060,779)	(227,510)	(5,565,955)
Capital contributions	28,494	1,899,930	-	1,928,424
Transfers in	-	291,314	127,000	418,314
Transfers out	<u>(291,314)</u>	<u>-</u>	<u>-</u>	<u>(291,314)</u>
Change in net assets	459,514	(3,869,535)	(100,510)	(3,510,531)
Total net assets - beginning	<u>6,837,739</u>	<u>41,931,159</u>	<u>2,192,028</u>	<u>50,960,926</u>
Total net assets - ending	<u><u>7,297,253</u></u>	<u><u>38,061,624</u></u>	<u><u>2,091,518</u></u>	<u><u>47,450,395</u></u>

The accompanying notes are an integral part of the financial statements.

Town of Oak Island, North Carolina  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2012

Exhibit 8  
Page 1 of 2

	<u>Major Enterprise Funds</u>		<u>Non-Major</u>	<u>Total</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Enterprise</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	
<b>Cash Flows From Operating Activities</b>				
Cash received from customers	2,917,919	5,259,384	985,124	9,162,427
Cash paid for goods and services	(1,569,411)	(4,495,066)	(926,869)	(6,991,346)
Cash paid to employees	(506,346)	(392,857)	(261,610)	(1,160,813)
Customer deposits received	54,913		-	54,913
Customer deposits returned	(34,174)		-	(34,174)
Other operating revenue	262,571	3,067	-	265,638
<b>Net cash provided by (used in) operating activities</b>	<b>1,125,472</b>	<b>374,528</b>	<b>(203,355)</b>	<b>1,296,645</b>
<b>Cash Flows From Noncapital Financing Activities</b>				
Operating grants received	2,599		40,754	43,353
Transfers-in	-	291,314	127,000	418,314
Transfers-out	(291,314)	-	-	(291,314)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(288,715)</b>	<b>291,314</b>	<b>167,754</b>	<b>170,353</b>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Debt proceeds	425,698	1,799,811	-	2,225,509
Acquisition and construction of capital assets	(679,624)	(5,753,431)	(29,534)	(6,462,589)
Principal paid on debt	(141,899)	(1,585,248)	-	(1,727,147)
Proceeds from sale of capital assets	27,875	17,779	-	45,654
Interest paid on debt		(4,982,729)	-	(4,982,729)
Capital contributions-State grant		505,623		505,623
Capital contributions-Brunswick County		-		-
Contributions from customers	28,494	6,732,753		6,761,247
<b>Net cash used in capital and related financing activities</b>	<b>(339,456)</b>	<b>(3,265,442)</b>	<b>(29,534)</b>	<b>(3,634,432)</b>
<b>Cash Flows Provided By Investing Activities</b>				
Interest earned	4,252	9,462	426	14,140
<b>Net cash provided by investing activities</b>	<b>4,252</b>	<b>9,462</b>	<b>426</b>	<b>14,140</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>501,553</b>	<b>(2,590,138)</b>	<b>(64,709)</b>	<b>(2,153,294)</b>
<b>Cash and cash equivalents:</b>				
Beginning	3,177,428	12,093,390	454,913	15,725,731
Ending	3,678,981	9,503,252	390,204	13,572,437

(Continued)

The accompanying notes are an integral part of the financial statements.

Town of Oak Island, North Carolina  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended June 30, 2012

Exhibit 8  
Page 2 of 2

	<u>Major Enterprise Funds</u>		<u>Non-Major</u>	<u>Total</u>
	<u>Water</u>	<u>Wastewater</u>	<u>Enterprise</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities				
Operating income (loss)	717,712	(2,320,993)	(269,623)	(1,872,904)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	176,395	3,126,267	57,891	3,360,553
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	64,343	(401,560)	3,310	(333,907)
Inventory	76,810	5,937	228	82,975
Increase (decrease) in:				
Accounts payable	49,001	(49,275)	(729)	(1,003)
Customer deposits	20,739	-		20,739
Unearned revenue			181	181
Accrued wages	(3,963)	2,753	(269)	(1,479)
Accrued vacation pay	9,701	(3,179)	(1,668)	4,854
Accrued OPEB liability	14,734	14,578	7,324	36,636
<b>Total adjustments</b>	<b>407,760</b>	<b>2,695,521</b>	<b>66,268</b>	<b>3,169,549</b>
<b>Net cash provided by (used in) operating activities</b>	<b>1,125,472</b>	<b>374,528</b>	<b>(203,355)</b>	<b>1,296,645</b>
Non-cash investing, capital and financing activities:				
Capital asset donations received		465,543		465,543
<b>Total non-cash investing, capital and financing activities:</b>	<b>-</b>	<b>465,543</b>	<b>-</b>	<b>465,543</b>

The accompanying notes are an integral part of the financial statements.

## **Notes to Financial Statements**

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies**

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

Town of Oak Island ABC Board (the "ABC Board"): The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board which has a June 30 year end is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Oak Island ABC Board, 5402 East Oak Island Drive, Oak Island, NC 28465.

**B. Basis of Presentation**

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

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

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

Town of Oak Island, North Carolina  
Notes to Financial Statements

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Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

The Town reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and recreational facilities and programs. Additionally, the Town has legally adopted Capital Reserve Fund. Under GASB 54 guidance this fund is consolidated in the General Fund. The budgetary comparisons for the Capital Reserve Fund have been included in the supplemental information.

The Town reports the following non-major governmental funds:

Town Hall Replacement Capital Project – This fund is used to account for the construction of a new town hall.

Beach Preservation Special Revenue Fund - This fund is used to account for donations that are restricted for publicizing and preserving the beach.

Emergency 911 System Fund – This fund is used to account for 911 revenues received by the State 911 Board to enhance the State 911 system.

Accommodation Tax Special Revenue Fund - This fund is used to account for accommodation tax revenues that are restricted for use for a particular purpose.

Police Department Headquarters Capital Project – This fund is used to account for the construction of the Police Headquarters.

The Town reports the following major enterprise funds:

Water Fund - This fund is used to account for the Town's water fund operations.

Wastewater Fund - This fund is used to account for the Town's wastewater operations.

Wastewater Capital Project Fund – This fund is used to account for the extension of the wastewater system currently located on the island.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (continued)**

The Town reports the following non-major enterprise funds:

Solid Waste Fund - This fund is used to account for the Town's solid waste operations.

South Harbour Golf Course Fund – This fund is used to account for the Town's maintenance and operation of the golf course.

Sewer District Fee Fund – This fund is used to account for fees charged for the availability of sewer service. These fees can only be used for payment of debt of the wastewater system.

The Town reports the following fund type:

Agency Fund – Agency funds are custodial in nature and do not involve the measurement of operating results. An agency fund is used to account for assets the Town holds on behalf of others. The Town maintains the Fines and Forfeitures Fund, which accounts for various legal fines and forfeitures that the Town is required to remit to the Brunswick County Board of Education. At June 30, 2012, all funds had been disbursed, therefore, there is no Statement of Net Assets for this fund presented in these financial statements.

**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, proprietary and fiduciary fund financial statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and 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. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are

Town of Oak Island, North Carolina  
Notes to Financial Statements

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Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system after the systems are completed. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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, Brunswick 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 Oak Island. 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 Brunswick County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. 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, categorical block grant and general revenues. Thus when program expenses are incurred, there are both 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.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

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, Capital Reserve Fund, Accommodations Tax Fund, Emergency 911 Fund, Beach Preservation Fund, Water Fund, Wastewater Fund, Solid Waste Fund, South Harbour Golf Course Fund and Sewer District Fee Fund. All annual appropriations lapse at the fiscal year end. Project budget ordinances are adopted for the Capital Projects funds. The Wastewater Capital Project and the Sewer District Fee Fund are consolidated with the Wastewater Fund for reporting purposes. 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 a fund as he sees necessary; however, the governing board must approve any revisions that alter the total expenditures of any fund or change functional appropriations by more than \$1,000. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

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

State law (G.S. 159-30(c)) authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust ("NCCMT"). 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.

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

Restricted assets: Certain proceeds of the Town's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "construction" account is used to report those proceeds of revenue bond issuances that are restricted for use in construction. The "capitalized interest" account is used to report resources set aside for paying interest on the respective bonds on such interest payment date. In addition to the revenue bonds the Town has additional unexpended debt proceeds classified as restricted assets because their use is completely restricted to the purpose of construction and acquisition of capital assets. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per NC G.S. 136-41.1 through 136-41.4.

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 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2011.

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

Inventory and Prepaid items: The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's general and enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased. Inventory of the Town of Oak Island ABC Board consists of products for resale to customers. The cost of these inventories is expensed when sold rather than when purchased.

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

Capital assets: Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$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, consisting mainly of road networks, are not reported, because the Town is a Phase III town under GASB 34, and not required to report those assets. 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.

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

Infrastructure	30
Utility systems I	40
Utility systems II	60
Buildings	40
Other structures and improvements	10 – 25
Motor vehicles	5
Heavy motor vehicles	10
Computer and electric equipment	5
Office equipment	10
Equipment	10
Intangible assets	30

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

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

Assets Class	Estimated Useful Lives
Buildings	30 - 40
Furniture and equipment	5 - 10
Paving	15

The Town and ABC Board evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Town are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Town are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Long-term obligations: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements 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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated absences: The vacation policy of both the Town and the ABC Board provides for the accumulation of up to two hundred forty (240) hours earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary 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 compiling 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.

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

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

Net assets/fund-balances: Net assets in government-wide and proprietary fund 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 balances can be spent.

The governmental fund types classify fund balance as follows:

Non Spendable 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.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Prepays – portion of fund balance that is not an available resource because it represents the year-end balance of ending prepaids, which are not spendable resources.

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.

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures.

Restricted for Tourism - portion of fund balance that is restricted by revenue source for certain tourism related purposes. This amount represents the balance of the unexpended accommodations tax receipts.

Restricted for Cultural and Recreation – portion of fund balance that is restricted by revenue source for certain cultural and recreation related purposes. This amount represents the balance of funds restricted by donors for beach preservation.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority by quorum of Town of Oak Island's governing body (highest level of decision making authority). Any changes or removal of specific purpose requires majority action by the governing body.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities and Fund Equity (Continued)**

Committed for Capital Projects – portion of fund balance committed by Town Council for certain capital project related purposes. This amount represents the balance in the legally budgeted capital reserve fund.

Committed for Administration – portion of fund balance committed by Town Council for the town hall replacement. This amount represents the balance remaining in the Town Hall Replacement Capital Project Fund.

Committed for Public Safety – portion of fund balance committed by Town Council for the police headquarters project. This amount represents the balance remaining in the Police Headquarters Capital Project Fund

Assigned fund balance – portion of fund balance that the Town of Oak Island intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to modify the appropriations by resource or appropriation within funds up to \$1,000.

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

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

**Note 2. Stewardship, Compliance and Accountability**

**A. Deficit Balance in Wastewater Capital Project**

The Wastewater Capital Project Fund ended the year with a negative fund balance. The negative balance was caused by funds being expended in one period and anticipated loan funds being received in later periods. Anticipated loan funds are not now available. These balances will be covered with transfers and advances from other funds until revenues in the Wastewater fund are adequate or additional loan funds are available.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 2. Stewardship, Compliance and Accountability (Continued)**

**B. Expenditures Exceed Appropriations**

At June 30, 2012, expenditures in the Wastewater Capital Project exceeded budget appropriations. This over-expenditure is the result of costs for the project exceeding expected funds available for construction. Management will review status of contracts, future change orders and possible sources of funds to make sure appropriations are adequate in the future.

**Note 3. Deposits and Investments**

Deposits: All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for noninterest 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, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and the ABC Board have no policy regarding custodial credit risk for deposits, but rely 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, 2012, the Town's deposits had a carrying amount of \$15,686,204 and a bank balance of \$15,795,189. The carrying amount of deposits of the ABC Board was \$421,035 and the bank balance was \$372,458. Deposits in the amount of \$4,075,877 of the Town and \$250,000 of the ABC Board were covered by federal depository insurance. The balances of the deposits \$11,719,312 for the Town and \$122,458 for the ABC Board were collateralized for institutions using the Pooling Method. At June 30, 2012, the Town's petty cash fund totaled \$910 and the ABC Board's cash on hand totaled \$1,500.

Investments: At June 30, 2012, the Town had \$6,899,122 invested in 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 formal policy regarding credit risk.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 4. Receivable - Allowances for Doubtful Accounts**

The amounts presented in the balance sheet and the statement of net assets is net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	74,244
Storm water fees receivable	<u>1,929</u>
	<u>76,173</u>
Enterprise Funds:	
Water Fund	264,559
Wastewater Fund:	
Wastewater billing	53,341
Sewer district fees	125,901
Sewer assessments	840,742
Solid Waste Fund	<u>75,590</u>
	<u>1,360,133</u>
	<u>1,436,306</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 5. Capital Assets

Primary government: Capital asset activity for the primary government for the year ended June 30, 2012 was as follows:

	6/30/11 Beginning Balances	Increases	Decreases	Transfers	6/30/12 Ending Balances
<u>Governmental Activities:</u>					
Capital assets not being depreciated					
Land	9,499,923				9,499,923
Construction in progress	250,000	66,714		(66,714)	250,000
Total capital assets not being depreciated	<u>9,749,923</u>	<u>66,714</u>	-	<u>(66,714)</u>	<u>9,749,923</u>
Capital assets being depreciated					
Buildings	16,962,917	66,619		25,876	17,055,412
Motor vehicles	1,707,597	168,024	361,320	25,208	1,539,509
Heavy motor vehicles	2,463,536	325,348	52,242		2,736,642
Equipment	1,407,235	60,641	13,000	6,000	1,460,876
Office Equipment	169,486	10,958			180,444
Other structures/improvements	2,919,673	27,578			2,947,251
Computers/electrical equipment	909,546	19,924		34,838	964,308
Infrastructure	3,728,410				3,728,410
Total capital assets being depreciated	<u>30,268,400</u>	<u>679,092</u>	<u>426,562</u>	<u>91,922</u>	<u>30,612,852</u>
Less accumulated depreciation for:					
Buildings	1,594,925	428,910			2,023,835
Motor vehicles	1,398,857	150,054	358,006	25,208	1,216,113
Heavy motor vehicles	1,726,131	143,200	49,102		1,820,229
Equipment	894,372	89,925	13,000		971,297
Office Equipment	54,416	16,254			70,670
Other structures/improvements	796,679	153,345			950,024
Computers/electrical equipment	589,119	117,559			706,678
Infrastructure	333,428	124,280			457,708
Total accumulated depreciation	<u>7,387,927</u>	<u>1,223,527</u>	<u>420,108</u>	<u>25,208</u>	<u>8,216,554</u>
Total capital assets being depreciated, net	<u>22,880,473</u>	<u>(544,435)</u>	<u>6,454</u>	<u>66,714</u>	<u>22,396,298</u>
Governmental activity capital assets, net	<u><u>32,630,396</u></u>	<u><u>(477,721)</u></u>	<u><u>6,454</u></u>	<u><u>-</u></u>	<u><u>32,146,221</u></u>

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

General Government	227,656
Public Safety	598,555
Transportation	143,144
Environmental protection	12,580
Cultural and recreational	241,592
Total depreciation expense	<u><u>1,223,527</u></u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 5. Capital Assets (continued)

	6/30/11 Beginning Balances	Increases	Decreases	Transfers	6/30/12 Ending Balances
<u>Business type activities:</u>					
Water Fund					
Capital assets not being depreciated					
Land	135,068				135,068
Capital assets being depreciated					
Buildings	127,016				127,016
Motor vehicles	339,009		32,304		306,705
Equipment	365,744		42,500		323,244
Computer and electric equipment	93,727				93,727
Utility systems I	2,028,136				2,028,136
Utility systems III	3,870,546	679,624			4,550,170
Total capital assets being depreciated	6,824,178	679,624	74,804	-	7,428,998
Less accumulated depreciation for:					
Buildings	65,771	1,808			67,579
Motor vehicles	284,090	29,960	32,304		281,746
Equipment	217,479	22,548	12,396		227,631
Computer and electric equipment	59,211	9,509			68,720
Utility systems I	956,531	44,495			1,001,026
Utility systems II	2,066,997	68,075			2,135,072
Total accumulated depreciation	3,650,079	176,395	44,700	-	3,781,774
Total capital assets being depreciated, net	3,174,099	503,229	30,104	-	3,647,224
Water fund capital assets, net	3,309,167	503,229	30,104	-	3,782,292
Wastewater Fund					
Capital assets not being depreciated					
Land	3,147,739				3,147,739
Future Treatment rights	285,397				285,397
Construction in progress	-	2,527,906		(2,527,906)	-
Total capital assets not being depreciated	3,433,136	2,527,906	-	(2,527,906)	3,433,136
Capital assets being depreciated:					
Buildings	13,266,014				13,266,014
Motor vehicles	153,278		18,000	(25,208)	110,070
Heavy vehicles	180,711				180,711
Equipment	7,213,807	86,168			7,299,975
Utility systems I	27,067				27,067
Utility systems II	82,466,182	649,331		1,218,102	84,333,615
Intangible assets	10,651,633			1,309,804	11,961,437
Total capital assets being depreciated	113,958,692	735,499	18,000	2,502,698	117,178,889
Less accumulated depreciation for:					
Buildings	172,518	331,650			504,168
Motor vehicles	121,148	18,945	18,000	(25,208)	96,885
Heavy vehicles	155,110	18,071			173,181
Equipment	605,612	704,928			1,310,540
Utility systems I	8,318	677			8,995
Utility systems II	2,192,860	1,660,558			3,853,418
Intangible assets	29,588	391,438			421,026
Total accumulated depreciation	3,285,154	3,126,267	18,000	(25,208)	6,368,213
Total capital assets being depreciated, net	110,673,538	(2,390,768)	-	2,527,906	110,810,676
Wastewater fund capital assets, net	114,106,674	137,138	-	-	114,243,812

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 5. Capital Assets (continued)

	6/30/11 Beginning Balances	Increases	Decreases	Transfers	6/30/12 Ending Balances
Solid Waste Fund					
Capital assets being depreciated					
Buildings	5,304				5,304
Motor vehicles	53,350	29,534			82,884
Heavy vehicles	688,417				688,417
Total capital assets being depreciated	<u>747,071</u>	<u>29,534</u>	<u>-</u>		<u>776,605</u>
Less accumulated depreciation for:					
Buildings	1,470	133			1,603
Motor vehicles	53,350				53,350
Heavy vehicles	443,791	47,956			491,747
Total accumulated depreciation	<u>498,611</u>	<u>48,089</u>	<u>-</u>		<u>546,700</u>
Total capital assets being depreciated, net	<u>248,460</u>	<u>(18,555)</u>			<u>229,905</u>
Sold Waste fund capital assets, net	<u>248,460</u>	<u>(18,555)</u>	<u>-</u>	-	<u>229,905</u>
South Harbor Golf Course Fund					
Capital assets not being depreciated					
Land	1,401,795				1,401,795
Total capital assets not being depreciated	<u>1,401,795</u>	<u>-</u>	<u>-</u>		<u>1,401,795</u>
Capital assets being depreciated					
Buildings	98,205				98,205
Equipment	73,471				73,471
Infrastructure	-				-
Total capital assets being depreciated	<u>171,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,676</u>
Less accumulated depreciation for:					
Buildings	8,593	2,455			11,048
Equipment	34,318	7,347			41,665
Total accumulated depreciation	<u>42,911</u>	<u>9,802</u>	<u>-</u>	<u>-</u>	<u>52,713</u>
Total capital assets being depreciated, net	<u>128,765</u>	<u>(9,802)</u>	<u>-</u>	<u>-</u>	<u>118,963</u>
SHGC fund capital assets, net	<u>1,530,560</u>	<u>(9,802)</u>	<u>-</u>	<u>-</u>	<u>1,520,758</u>
Business-type activities capital assets, net					
	<u>119,194,861</u>	<u>612,010</u>	<u>30,104</u>	<u>-</u>	<u>119,776,767</u>

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

Water Fund	176,395
Wastewater Fund	3,126,267
Solid Waste Fund	48,089
South Harbour Golf Course Fund	9,802
Total depreciation expense	<u>3,360,553</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 5. Capital Assets (continued)**

At June 30, 2012 all construction projects are "substantially complete". However, the Town is withholding final payments on two projects until Town officials and the contractors can complete a final inspection and agree that all work has been completed to satisfy the terms of the contract. The withheld balances are as follows:

Project	Remaining Retainage
Police Headquarters Capital Project	76,506
Wastewater Capital Project	<u>780,718</u>
	<u>857,224</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated				
Land	<u>101,178</u>	—	—	<u>101,178</u>
Capital assets being depreciated				
Buildings	330,523			330,523
Furniture and equipment	92,370			92,370
Paving	<u>15,000</u>	—	—	<u>15,000</u>
Total capital assets being depreciated	<u>437,893</u>	—	—	<u>437,893</u>
Less accumulated depreciation for:				
Buildings	83,315	8,264		91,579
Furniture and equipment	70,110	4,546		74,656
Paving	<u>10,083</u>	<u>1,000</u>	—	<u>11,083</u>
Total accumulated depreciation	<u>163,508</u>	<u>13,810</u>	—	<u>177,318</u>
Total capital assets being depreciated, net	<u>274,385</u>			<u>260,575</u>
ABC Board capital assets, net	<u>375,563</u>			<u>361,753</u>

## Note 6. Pension Plan Obligations

### Local Governmental Employees' Retirement System

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

Funding policy: Plan members are required to contribute six percent of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 6.90%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.88% of annual covered payroll. The contribution requirements of members and of the Town of Oak Island and the ABC Board are established and may be amended by the North Carolina General Assembly. The Town's contributions to the LGERS for the years ended June 30, 2012, 2011 and 2010 were \$406,414, \$390,440, and \$292,394, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$10,918, \$9,594 and \$6,689, respectively. The contributions made by the Town and the ABC Board equaled the required contribution for each year.

### Law Enforcement Officers' Special Separation Allowance

#### 1. Plan Description

The Town of Oak Island 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, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet Receiving benefits	0
Active plan members	<u>25</u>
Total	<u>28</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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Note 6. Pension Plan Obligations (Continued)

Law Enforcement Officers' Special Separation Allowance (Continued)

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies

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

Method used to value investments - No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% - 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases.

*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:

Annual required contribution	46,933
Interest on net pension obligation	(810)
Adjustment to annual required contribution	<u>966</u>
Annual pension cost	47,089
Contributions made	<u>47,089</u>
Increase (decrease) in net pension obligation	0
Net pension obligation beginning of year	<u>0</u>
Net pension obligation end of year	<u>0</u>

Year Ended <u>June 30</u>	<u>3 Year Trend Information</u>		
	<u>Annual Pension Cost APC</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	63,399	81.88%	0
2011	45,836	100.00%	0
2012	47,089	100.00%	0

#### Note 6. Pension Plan Obligations (Continued)

##### 4. Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$427,131. The covered payroll (annual payroll of active employees covered by the plan) was \$1,220,744 and the ratio of the UAAL to the covered payroll was 34.99 percent.

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.

##### Supplemental Retirement Income Plan

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 employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes 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. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. In addition, the Town has elected to contribute four percent for all employees not engaged in law enforcement to the Supplemental Retirement Income Plan. Total contributions for the year ended June 30, 2012 were \$391,388, which consisted of \$247,749 from the Town and \$143,639 from the employees.

##### Firemen's and Rescue Squad Workers' Pension Fund

Plan description: The State of North Carolina contributes, on behalf of the Town of Oak Island, to the Firemen's and Rescue Squad Workers' Pension 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 Firemen'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 Firemen's and Rescue Squad Worker's Pension 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 to the Fund for members. The State, a nonemployer 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.

## Note 7. Other Employment and Post-Employment Benefits

### Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). The HCB Plan provides postretirement health and dental care benefits to retirees of the Town who meet the following requirements:

- (1) An employee who has a minimum of fifteen years in the North Carolina Local Governmental Employees Retirement System ("NCLGERS"), and a minimum of five years service to the Town, and are fifty-five years of age or older may continue health insurance with the Town until age sixty-five. The retiree shall share the cost of coverage at the rate of 5% for every year of service to the NCLGERS below twenty-five years. Medicare supplemental insurance shall be offered to retirees sixty-five or older who meet the above criteria with all costs being borne by the retiree. Continuation of coverage for the retiree's spouse or family may be allowed until the retiree reaches age sixty-five, provided all costs are borne by the retiree.
- (2) An employee retiring from the Town of Oak Island who has a minimum of twenty-five years in the NCLGERS, a minimum five years service with the Town and who is fifty years of age or older, may continue health insurance coverage with the Town until age sixty-five at no cost to the retiree. Medicare supplemental insurance shall be offered to retirees sixty-five or older who meet the above criteria with all costs being borne by the retiree. Continuation of coverage for the retiree's spouse or family shall be available until the retiree reaches age sixty-five, provided all costs are borne by the retiree.
- (3) An employee retiring from the Town of Oak Island who has five continuous years of service with the Town, and thirty continuous years of service to the NCLGERS, regardless of age, may continue health insurance coverage with the Town until age sixty-five at no cost to the retiree. Medicare supplemental insurance shall be available for retirees who meet these criteria and are sixty-five or older with all costs being borne by the retiree. Continuation of coverage for the retiree's spouse or family may be allowed until the retiree reaches age sixty-five, provided all costs are borne by the retiree.

Under either of the above, service with the Town of Long Beach or Town of Yaupon Beach will qualify as service to the Town of Oak Island. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Membership in the HCB Plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

Law enforcement officers	25
General Employees	118
Retirees	<u>9</u>
Total	<u>152</u>

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**Note 7. Other Employment and Post-Employment Benefits (Continued)**

Funding Policy. The Town has chosen to fund the healthcare benefits on a pay as you go basis. The current annual required contribution (ARC) is 3.03% of annual covered payroll. For the current year, the Town contributed \$65,992 or 1.07% of annual covered payroll. The Town obtains healthcare coverage through private insurers. Five retired employees contributed a portion of the cost of their insurance totaling \$4,391. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the fund from which the retiree was employed. Currently all retirees are from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB Cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual require contribution	194,780
Interest on net OPEB obligation	8,811
Adjustment to annual required contribution	<u>(7,602)</u>
Annual OPEB cost	195,989
Contributions made	<u>(65,992)</u>
Increase (decrease) in net OPEB obligation	129,997
Net OPEB obligation, beginning of year	<u>220,275</u>
Net OPEB obligation, end of year	<u>350,272</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 were as follows:

For Year Ended June 30	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	180,954	46.9%	96,150
2011	181,482	31.6%	220,275
2012	195,989	33.7%	350,272

#### Note 7. Other Employment and Post-Employment Benefits (Continued)

Funding Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability was \$1,851,682. The covered payroll (annual payroll of active employees covered by the plan) was \$6,123,242, and the ratio of the UAAL to the covered payroll was 30.2 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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 is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 9.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The assumed investment rate of return reflects that no assets are set aside within the Town that is legally held exclusively for retiree health benefits. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was 30 years.

#### Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's 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. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the Town made contributions to the State for death benefits of \$6,369. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .10% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

Town of Oak Island, North Carolina  
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**Note 8. Deferred Revenue/Unearned Revenue**

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
General Fund:		
Prepaid taxes		4,118
Prepaid privilege licenses		9,890
Taxes receivable	658,202	
Privilege licenses receivable	42,850	
Assessments receivable	<u>25,702</u>	-
	<u>726,754</u>	<u>14,008</u>
Nonmajor governmental funds:		
Assessment receivable	<u>6,405</u>	-
	<u>733,159</u>	<u>14,008</u>
Proprietary Funds:		
Wastewater Fund		
Prepaid assessment		36,238
Nonmajor proprietary funds		
Unredeemed gift cards		498
	<u>0</u>	<u>36,736</u>

**Note 9. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability, auto liability coverage of \$2 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to the statutory limits. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The property liability pool has an aggregate limit of the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town provides health, dental, vision and life insurance through a commercial vendor. Employee health claims are insured to a \$5 million dollar lifetime limit. Employees can provide dependent coverage if desired.

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

The Town carries flood insurance through the National Flood Insurance Program ("NFIP") for three buildings. All three buildings were required to obtain flood insurance as part of their installment purchase agreement. The Town does not feel that additional flood insurance is necessary because the danger of flooding as defined by the insurance companies is low.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 9. Risk Management (Continued)**

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

The Town of Oak Island ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. There have been no significant reductions in insurance coverage in the past year, and settled claims have not exceeded coverage in any of the past three fiscal years.

**Note 10. Claims, Judgments and Contingent Liabilities**

At June 30, 2012, the Town was a defendant to various claims and lawsuits. In the opinion of the Town's management and the Town Attorney, only the following items have more than a remote chance of having a material adverse effect on the Town's financial position:

Construction Systems, Inc. ("CSI") v. Town of Oak Island. This is a pending claim asserted by the General Contractor for the storm water system for the Town Hall / Police Department complex. CSI contends that it is owed \$427,408 for work performed as a result of modifications to the original design of the storm water system. This claim is subject to mandatory arbitration; however, a demand for arbitration has not been made. The Town has denied this claim on the advice of the Town's architect. It is the opinion of the Town Attorney that the upper limits of the Town's exposure would be \$250,000.

In the government-wide financial statements the Town has recorded a liability of \$250,000 in the Governmental Activities for the CSI claim.

**Note 11. Long-Term Obligations**

Capital leases: The Town has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. In all agreements, title passes to the Town at the end of the lease term. The provisions of the capital leases are summarized below:

Date of Lease	Fund	Property Leased	Total of Lease	Payment Amount	Remaining Payments	Frequency of Payment
3/25/2005	General Fund	2005 Emergency One Pumper Fire Truck	272,000	32,525	3	Annual
6/22/2009	General Fund	2008 Rosenburgh Fire Truck	675,000	84,186	8	Annual
8/15/2008	General Fund	Town Hall Telephone System	80,000	17,950	2	Annual
9/28/2010	General Fund	Caterpillar Motor Grader	88,000	18,491	3	Annual
10/12/2011	General Fund	2 New Ambulances and Used Fire Truck	318,000	65,105	4	Annual

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 11. Long-Term Obligations (Continued)**

The following is an analysis of the assets recorded under capital leases at June 30, 2012:

<u>Fund</u>	<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
General Fund	Computers/Electrical Equip	76,351	62,354	13,997
General Fund	Equipment	118,000	21,633	96,367
General Fund	Heavy motor vehicles	<u>1,295,382</u>	<u>432,237</u>	<u>863,145</u>
		<u>1,489,733</u>	<u>516,224</u>	<u>973,509</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2012	219,258
2013	219,258
2014	201,275
2015	150,291
2016	84,187
2017 – 2021	<u>252,559</u>
Total minimum lease payments	1,126,828
Less: amount representing interest	<u>145,782</u>
Present value of the minimum lease payments	<u>981,046</u>

Installment purchases: The Town has entered into various installment purchase contracts to finance the acquisition and renovation of various land and facilities. These installment purchase contracts are outlined as follows:

General Fund

Installment purchase for construction of police headquarters from BB&T dated May 15, 2008, due in annual principal installments of \$266,667 plus interest of 3.89% through July 2021.

Installment purchase for construction of fire stations at Yaupon Beach and South Harbour from BB&T dated May 15, 2008 due in annual principal installments of \$408,643 plus interest of 3.93% through July 2022.

Installment purchase contract for additional financing for construction of police headquarters from BB&T dated August 14, 2008, due in annual principal installments of \$127,940 plus interest of 4.44% through August 2021.

Installment purchase contract for Yaupon Pier purchase and repair from BB&T dated June 17, 2009, due in annual principal installments of \$90,000 plus interest of 4.39% through June 2019.

Town of Oak Island, North Carolina  
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**Note 11. Long-Term Obligations (Continued)**

Installment purchase contract for construction of town hall from BB&T dated May 13, 2009, due in annual principal installments of \$326,667 plus interest of 4.59% through July 2024.

Wastewater Fund

Installment purchase contract for land purchase for future sewer expansion from BB&T dated May 30, 2002, due in annual installments of \$114,597 including interest of 4.87% through May 2017.

Water Fund

Installment obligation to NC Department of Transportation for relocation of water lines during construction of new bridge to the island dated April 25, 2012, due in annual installments of \$141,900 with no interest through April 2014.

The future minimum payments of the installment purchases as of June 30, 2012, including \$3,493,033 of interest are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	1,219,916	559,774	232,247	24,249
2014	1,219,916	508,715	236,648	19,849
2015	1,219,916	457,657	99,362	15,235
2016	1,219,916	406,598	104,201	10,396
2017	1,219,916	355,540	109,275	5,322
2018 – 2022	5,829,579	1,023,674		
2023 – 2025	<u>1,388,641</u>	<u>106,024</u>		-
Total	<u>13,317,800</u>	<u>3,417,982</u>	<u>584,086</u>	<u>75,051</u>

Revolving Loans

In January 2008, the Town entered into a \$9,000,000 revolving loan from the North Carolina Department of Environment and Natural Resources for a sanitary sewer project. The revolving loan requires bi-annual interest payments due on November 1 and May 1 and an annual principal payment due on May 1; interest is a 2.10%. Through June 30, 2012 the Town had drawn \$7,525,146. The period for withdrawals has expired and there will be no future withdrawals.

Additionally, in March 2009, the Town was approved for a second revolving loan from the North Carolina Department of Environment and Natural Resources in the amount of \$8,500,000 for a sanitary sewer project. The revolving loan requires biannual interest payments due on November 1 and May 1 and an annual principal payment due on May 1; interest is at 2.48%. Through June 30, 2012 the Town had drawn \$6,579,167. The period for withdrawals has expired and there will be no future withdrawals.

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**Note 11. Long-Term Obligations (Continued)**

Current annual debt service requirement to maturity for the revolving loans are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	596,276	287,605
2014	609,822	274,058
2015	623,679	260,201
2016	637,853	246,027
2017	652,351	231,529
2018-2022	3,491,112	928,290
2023-2026	3,906,725	512,678
Thereafter	<u>2,086,908</u>	<u>87,873</u>
	<u>12,604,726</u>	<u>2,828,261</u>

Revenue Debt

On August 1, 1993, the Town of Yaupon Beach received a \$3,159,476 loan from the North Carolina Water Pollution Revolving Fund. The Town of Oak Island assumed the balance of \$2,369,607 owed on July 1, 1999. The proceeds of this debt were used to finance a wastewater treatment system. Solely the revenues produced by the wastewater treatment system collateralize this note. Principal payments are due annually on November 1 through November 1, 2014 with semiannual interest payments due on May 1 and November 1 at an annual interest rate of 3.57%.

Annual debt service requirements to maturity for revenue indebtedness in the Wastewater Fund are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	157,973	11,279
2014	<u>157,974</u>	<u>5,640</u>
	<u>315,947</u>	<u>16,919</u>

Revenue Bonds

\$33,040,000 Enterprise System Bonds, series 2008A, net of \$561,329 issuance premium, issued for wastewater system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate of 3.50% - 5.00%.

31,260,902

\$49,420,000 Enterprise System Bonds, series 2009, net of \$413,472 issuance discount issued for wastewater system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate of 4.00% to 6.00%.

49,055,993

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**Note 11. Long-Term Obligations (Continued)**

\$10,670,000 Enterprise System Bonds, series 2011, net of \$77,888 issuance discount issued for wastewater system improvements. Principal installments are due annually on June 1 with semiannual interest payments due on December 1 and June 1, at an annual interest rate of 2.25% to 5.75%.

10,346,453

90,663,348

Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	2,172,190	4,666,481
2014	2,262,190	4,583,506
2015	2,352,190	4,487,356
2016	2,447,190	4,393,881
2017	2,547,190	4,298,931
2018 - 2022	14,505,949	19,705,919
2023 - 2027	18,390,949	15,812,438
Thereafter	<u>45,985,500</u>	<u>13,339,250</u>
	<u>90,663,348</u>	<u>71,287,762</u>

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**Note 11. Long-Term Obligations (Continued)**

The Town has been in compliance with the covenants as to rates, fees, rentals and charges in Section 704 of the Bond Order, authorizing the issuance of the Enterprise System Bonds, Series 2008A, 2009 and 2011. Section 704(a) of the Bond Order requires the sum of (i) Income available for debt service for such fiscal year and (ii) 15% of the balance in the Revenue Fund as of the last day of the preceding fiscal year will not be less than the sum of (1) 120% of the long-term debt service requirement for parity indebtedness for such fiscal year and (2) 100% of the long-term debt service requirement for subordinated indebtedness, System G.O. indebtedness and System Other indebtedness for such fiscal year. Section 704(b) requires Income available for debt service for such fiscal year will not be less than 100% of the long-term debt service requirement for parity indebtedness, subordinated indebtedness, System G.O. indebtedness and System Other indebtedness for such fiscal year. The debt service coverage calculation for the year ended June 30, 2012, is as follows:

Operating and non operating revenues	10,088,243
Sewer district fee	496,361
Sewer assessment revenue	<u>4,250,000</u>
Total revenues*	14,834,604
Current expenses**	<u>7,080,777</u>
Income available for debt service	7,753,827
15% of the balance of the revenue fund	<u>568,061</u>
Total	<u><u>8,321,888</u></u>
100% of the long-term debt service requirement for parity indebtedness, subordinated indebtedness, system g.o. indebtedness and system other indebtedness for 2013	6,709,876
Additional 20% of the long-term debt service requirement for parity indebtedness for 2013	<u>1,144,668</u>
Total	<u><u>7,854,544</u></u>
Coverage test 704(a)	1.06
Coverage test 704(b)	1.16

\*In accordance with the Revenue Bond trust agreement assessment revenues shall be included in revenues if and to the extent specified in the Officer's Certificate filed in such fiscal year. In the current year \$4,250,000 in assessment revenue was included.

\*\*Per rate covenants, this does not include depreciation expense of \$3,302,662.

The Town has pledged future water and wastewater customer revenues, net of specified current expenses, to repay \$90,663,348 in water and wastewater system revenue bonds issued in January 2008, March 2009 and January 2011. Proceeds from the bonds provided financing for the extension to the wastewater system to the entire island. The bonds are payable solely from water and wastewater income available for debt service and are payable through 2036. The total principal and interest remaining to be paid on the bonds, net of the issuance premium, is \$161,951,110. Principal and interest paid for the current year was \$6,453,380.

Town of Oak Island, North Carolina  
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Note 11. Long-Term Obligations (Continued)

At June 30, 2012, the Town of Oak Island had a legal debt margin of \$184,950,897.

Changes in long-term liabilities:

A summary of changes in long-term debt is as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Installment Purchase	14,777,318		1,459,518	13,317,800	1,219,916
Capitalized leases	846,226	318,000	183,180	981,046	182,787
Compensated absences	378,832	277,572	256,852	399,552	210,778
Other postemployment benefits	166,227	159,353	65,992	259,588	-
Net pension obligation	-	47,089	47,089	-	-
	<u>16,168,603</u>	<u>802,014</u>	<u>2,012,631</u>	<u>14,957,986</u>	<u>1,613,481</u>
 <u>Business-type Activities</u>					
Installment purchases	584,086	425,698	228,051	781,733	232,247
State revolving loan	11,116,037	1,799,811	311,122	12,604,726	596,276
Revenue debt	473,921		157,974	315,947	157,973
Revenue bonds	91,695,537		1,032,189	90,663,348	2,170,000
Other postemployment benefits	54,049	36,636		90,685	-
Compensated absences	108,032	51,087	58,651	100,468	51,045
	<u>104,031,662</u>	<u>2,313,232</u>	<u>1,787,987</u>	<u>104,556,907</u>	<u>3,207,541</u>

Compensated absences for government activities have typically been liquidated in the General Fund.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 12. Interfund Balances and Activity**

Transfers to/from other funds at June 30, 2012, consist of the following:

Transfer from	Transfer to			Totals
	General Fund	Wastewater Fund	Non-Major Enterprise Funds	
Non-Major Governmental Funds	360,078		127,000	487,078
Water Fund	-	291,314	-	291,314
Totals	<u>360,078</u>	<u>291,314</u>	<u>127,000</u>	<u>778,392</u>

Interfund transfers were made during the year to accumulate resources for funding of capital projects and to supplement other funding sources in the Capital Projects, Special Revenue, Wastewater, Solid Waste and South Harbour Golf Course funds.

**Note 13. On-Behalf Payments for Fringe Benefits and Salaries**

For the fiscal year ended June 30, 2012, the Town of Oak Island has recognized on-behalf payments for pension contributions made by the state as a revenue and expenditure of \$10,318 for the 11 volunteer firemen and the 16 employed firemen who perform firefighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen and Rescue Worker's Pension Fund, a cost sharing, multiple employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution for each member, investment income and a State appropriation.

Also, the Town has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$3,000 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2012. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 14. 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	5,204,841
Less:	
Inventories	22,457
Prepays	3,000
Stabalization by State Statute	713,931
Streets- Powell Bill	667,700
Capital Projects	425,139
Remaining Fund Balance	3,372,614

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end. At June 30, 2012, the General Fund had encumbrances totaling \$19,348 and the Non-Major Funds had \$9,245 in encumbrances.

**Note 15. Joint Ventures**

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town obtains an ongoing financial benefit from the Fund on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2012, the Town reported \$3,000 in revenues and expenditures for the payments made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the Town's financial statements at June 30, 2012. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

**Note 16. Jointly Governed Organizations**

Cape Fear Council of Governments: The Town, in conjunction with four counties and forty other municipalities established the Cape Fear Council of Governments ("Council"). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$1,757 to the Council during the fiscal year ended June 30, 2012. Complete financial information for the Council can be obtained from the Council's administrative offices at 1480 Harbour Drive, Wilmington, NC 28401.

**Note 16. Jointly Governed Organizations (Continued)**

Brunswick County Airport Commission: The Town in conjunction with Brunswick County and the City of Southport established the Brunswick County Airport Commission. The purpose of the Commission is to acquire land, establish, construct, own, control, lease, equip, improve, maintain, operate, and regulate airports or landing fields within the County, to provide and maintain an airport facility for the use of the general aviation public and to promote the economic development of Brunswick County. The Town of Oak Island appoints two members and the City of Southport appoints one member to the Commission while Brunswick County appoints a total of four. The Town is not obligated to furnish any funds to the Commission but in the past has made contributions. During the year ended June 30, 2012, the Town contributed \$7,500 to the Commission. The participating governments do not have any equity interest in the Commission, so no equity interest has been reflected in the Town's financial statements at June 30, 2012. Complete financial information for the Airport Commission can be obtained at the airport's administrative offices at 380 Long Beach Road, Southport, NC 28461.

West Brunswick Regional Water Reclamation Facility

The Facility is owned, operated and maintained by Brunswick County. The Town of Oak Island, Town of Holden Beach, Town of Shallotte and the County have entered into a wastewater service agreement for a portion of the treatment capacity in the plant. Currently the Town of Oak Island is allocated treatment of three million gallons per day. Each participant is charged capacity service fees based on their share of capacity in the plant. Participants are also charged treatment service fees based on metered flow they send to the plant. The participant fees and the costs allocation to the County for their flow are combined so that the operating and maintenance costs of the plant are recovered by county retail revenues and participant service fees on a proportional and breakeven basis. Each participant has the ability to appoint one representative and one alternate to an Oversight Committee. This committee makes budget and operating recommendations to the County Commissioners. During the year ended June 30, 2012, the Town of Oak Island recorded \$3,090,366 in capacity fees and \$458,003 in service fees to Brunswick County.

**Note 17. Summary Disclosure of Significant Contingencies**

Federal and state assisted 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.

**Note 18. Subsequent Events**

Events occurring after June 30, 2012 were evaluated by management on May 28, 2013 to ensure that any subsequent events that met the criteria for recognition and or disclosure in these financial statements have been included. The following event meets the criteria for disclosure.

**Violation of Revenue Bond Filing Requirements**

The Annual Secondary Market Filing (Rule 15c2-12) as required by the continuing disclosure of Town bond documents were not filed by the January 31, 2013 deadline. Failure to file timely is a breach of the contract which was signed when the debt was issued. The Town will ensure that the required filings will be timely in the future.

**Required Supplemental Financial Data**

Town of Oak Island, North Carolina  
 Required Supplementary Information  
 Law Enforcement Officer's Special Separation Allowance- Schedule of Funding Progress  
 June 30, 2012

Exhibit A-1

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability Projected Unit Credit	Unfunded Actuarial Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
December 31:						
1999	\$ -	\$ 137,986	\$ 137,986	0.00	% \$ 624,267	22.10 %
2000	-	190,934	190,934	0.00	833,443	22.91
2001	-	212,480	212,480	0.00	848,902	25.03
2002	-	268,781	268,781	0.00	836,623	32.13
2003	-	278,926	278,926	0.00	792,942	35.18
2004	-	369,658	369,658	0.00	780,787	47.34
2005	-	322,470	322,470	0.00	918,365	35.11
2006	-	298,853	298,853	0.00	994,570	30.05
2007	-	391,206	391,206	0.00	1,011,832	38.66
2008	-	376,725	376,725	0.00	1,073,205	35.10
2009	-	439,890	439,890	0.00	1,129,298	38.95
2010	-	414,197	414,197	0.00	1,139,599	36.35
2011	-	427,131	427,131	0.00	1,220,744	34.99

Town of Oak Island, North Carolina  
Required Supplementary Information

**Exhibit A-2**

Law Enforcement Officer's Special Separation Allowance- Schedule of Employer Contributions  
June 30, 2012

Year Ended June 30,	Annual Required Contribution	Percent Contributed
2001	18,634	68.90
2002	22,755	73.07
2003	24,648	67.47
2004	29,916	55.59
2005	34,761	146.19
2006	32,482	156.44
2007	31,352	182.58
2008	37,884	159.25
2009	37,997	154.68
2010	38,565	134.61
2011	45,841	99.99
2012	46,933	84.71

**Notes to Required Supplementary Information**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization method	19 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	N/A

Since the previous valuation, the assumed interest rate has not changed.

Town of Oak Island, North Carolina  
 Required Supplementary Information  
 Other Postemployment Benefits - Schedule of Funding Progress  
 June 30, 2012

**Exhibit A-3**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Projected Unit Credit	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll
December 31:						
2008	\$ -	\$ 1,813,586	\$ 1,813,586	0.00 %	\$ 5,555,994	32.60 %
2011	\$ -	\$ 1,851,682	\$ 1,851,682	0.00 %	\$ 6,123,242	30.20 %

Town of Oak Island, North Carolina  
 Required Supplementary Information  
 Other Postemployment Benefits - Schedule of Employer Contributions  
 June 30, 2012

Exhibit A-4

Year Ended June 30,	Annual Required Contribution	Percent Contributed
2010	180,954	46.90
2011	181,482	31.60
2012	195,989	33.70

**Notes to Required Supplementary Information**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization method	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	9.50%-5.00%
Year of Ultimate trend rate	2018
*Includes inflation at	3.00%

**Individual Fund Statements and Schedules**  
**Governmental Funds**

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Ad valorem taxes:			
Current year	6,397,505	6,391,741	(5,764)
Prior years	164,000	177,948	13,948
Motor vehicle tax	110,000	122,961	12,961
Penalties and interest	31,000	42,664	11,664
<b>Total ad valorem taxes</b>	<b>6,702,505</b>	<b>6,735,314</b>	<b>32,809</b>
Other taxes and licenses			
Local option sales tax:			
1%	520,000	568,800	48,800
1/2%, 40	287,000	314,776	27,776
1/2%, 42	264,000	288,931	24,931
1/2%, 44	260,000	286,112	26,112
Privilege licenses	20,000	36,018	16,018
Animal control	6,000	8,343	2,343
<b>Total other taxes and licenses</b>	<b>1,357,000</b>	<b>1,502,980</b>	<b>145,980</b>
Unrestricted intergovernmental revenue:			
Beer and wine tax	28,000	29,593	1,593
Utility franchise tax	409,000	381,608	(27,392)
Telephone communication tax	32,000	33,779	1,779
Video franchise fees	18,000	19,322	1,322
ABC profit distribution	100,000	148,966	48,966
<b>Total unrestricted intergovernmental revenue</b>	<b>587,000</b>	<b>613,268</b>	<b>26,268</b>
Restricted intergovernmental revenue:			
FEMA reimbursement	17,850	17,850	-
FEMA SAFR grant	154,553	145,319	(9,234)
FEMA AFF grant	122,698	120,449	(2,249)
NC control substance tax distribution	3,441	5,687	2,246
Brunswick County fire district fees	950,000	997,196	47,196
Brunswick County rescue contract	33,000	36,000	3,000
On-behalf of payments - Fire and Rescue	-	13,318	13,318

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
DHS - Marine Fire Equipment and Training Grant	39,000	13,940	(25,060)
<i>State Street Aid</i> allocation	285,000	292,979	7,979
Federal Drug Seizure Law Enforcement	1,359	2,995	1,636
<b>Total restricted intergovernmental revenue</b>	<b>1,606,901</b>	<b>1,645,733</b>	<b>38,832</b>
Permits and fees:			
Planning board fees	1,000	600	(400)
Homeowners Recovery Fund	500	640	140
Building permits	115,000	154,098	39,098
Other permits and fees	88,000	78,165	(9,835)
Inspection fees	45,000	54,560	9,560
CAMA reimbursement	3,000	5,575	2,575
<b>Total permits and fees</b>	<b>252,500</b>	<b>293,638</b>	<b>41,138</b>
Sales and services:			
Recreation department fees	75,000	83,515	8,515
Salty Dog Park Revenue	3,624	7,674	4,050
Stormwater fees, residential	235,000	236,236	1,236
Stormwater fees, commercial	22,000	24,075	2,075
Rescue Squad fees	98,630	58,362	(40,268)
Sponsorship ads	7,000	2,670	(4,330)
Weight room fees	35,000	37,514	2,514
Merchandising	4,000	2,960	(1,040)
Video programing revenue	181,700	157,944	(23,756)
Lease, Southern Bell	2,400	2,400	-
<b>Total sales and services</b>	<b>664,354</b>	<b>613,350</b>	<b>(51,004)</b>
Investment earnings	5,000	4,166	(834)
Miscellaneous:			
Street assessments	-	1,138	1,138
Underground utility assessments	-	2,604	2,604
Sale of fixed assets	-	44,568	44,568

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Pier lease	72,750	66,750	(6,000)
Beach & Tourism Committee Programs	-	9,356	9,356
Pier preservation revenues	10,000	-	(10,000)
Tree preservation revenues	10,000	-	(10,000)
Sponsorship- Oak Island Fireworks	10,000	3,575	(6,425)
Donations	12,195	9,891	(2,304)
Brunswick Arts Council	1,000	-	(1,000)
Miscellaneous	84,148	104,749	20,601
Stormwater Program Fees	-	100	100
Civil citations	10,000	13,344	3,344
Turtle program	3,700	7,617	3,917
Interest on assessments	-	1,128	1,128
<b>Total miscellaneous</b>	<b>213,793</b>	<b>264,820</b>	<b>51,027</b>
<b>Total revenue</b>	<b>11,389,053</b>	<b>11,673,269</b>	<b>284,216</b>

## Expenditures:

## General government:

## Governing body:

Salaries 34,464 34,464

Fringe benefits 2,624 2,177

Operating expense 359,855 299,989

Elections 3,170 3,161

## Donations:

Brunswick Family Assistance 1,000 1,000

Chamber of Commerce 5,500 5,500

Oak Island Senior Citizens 6,032 6,032

Communities in Schools 1,000 1,000

Hope Harbor Home 1,800 1,800

Family Emergency Teen Shelter 1,200 1,200

Kay Beasley Sea Turtle Hospital 1,000 1,000

NC Fourth of July Festival 1,000 -

Oak Island Community Watch 2,000 2,000

Lower Cape Fear Hospice 2,500 2,500

Oak Island Art Guild 500 500

## General Fund

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Brunswick County Literacy Council	1,500	1,500	
Long Bay Artificial Reef Association	5,000	5,000	
Oak Island Feral Cat Program	2,000	2,000	
Brunswick County Airport Commission	7,500	7,500	
<b>Total governing body</b>	<b>439,645</b>	<b>378,323</b>	<b>61,322</b>
Administration:			
Salaries	575,912	560,940	
Fringe benefits	221,689	215,603	
Operating expenditures	542,034	501,855	
Capital outlay	20,200	10,958	
<b>Total administration</b>	<b>1,359,835</b>	<b>1,289,356</b>	<b>70,479</b>
Grounds maintenance:			
Salaries	194,164	186,801	
Fringe benefits	93,613	89,867	
Operating expenditures	53,498	45,637	
<b>Total grounds maintenance</b>	<b>341,275</b>	<b>322,305</b>	<b>18,970</b>
Facilities management:			
Salaries	57,551	57,347	
Fringe benefits	45,571	41,520	
Operating expenditures	376,132	361,237	
<b>Total facilities management</b>	<b>479,254</b>	<b>460,104</b>	<b>19,150</b>
<b>Total general government</b>	<b>2,620,009</b>	<b>2,450,088</b>	<b>169,921</b>
Public safety:			
Police:			
Salaries	1,212,675	1,206,750	
Fringe benefits	513,237	495,771	

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Operating expenditures	198,877	176,711	
Capital outlay	143,862	143,855	
<b>Total police</b>	<b>2,068,651</b>	<b>2,023,087</b>	<b>45,564</b>
Emergency communications:			
Salaries	207,055	200,102	
Fringe benefits	101,401	83,817	
Operating expenditures	14,950	7,852	
<b>Total emergency communications</b>	<b>323,406</b>	<b>291,771</b>	<b>31,635</b>
Fire and EMS Department:			
Salaries	980,107	978,803	
Fringe benefits	355,345	361,662	
Operating expenditures	515,021	420,788	
Contracted services - Yaupon Beach VFD	80,000	80,000	
Capital outlay	410,642	417,989	-
<b>Total Fire and EMS Department</b>	<b>2,341,115</b>	<b>2,259,242</b>	<b>81,873</b>
Development services:			
Salaries	485,328	477,686	
Fringe benefits	197,866	196,803	
Operating expenditures	64,992	42,230	
<b>Total development services</b>	<b>748,186</b>	<b>716,719</b>	<b>31,467</b>
Animal control:			
Salaries	73,198	73,188	
Fringe benefits	32,784	30,484	
Operating expenditures	15,620	12,951	
<b>Total animal control</b>	<b>121,602</b>	<b>116,623</b>	<b>4,979</b>
<b>Total public safety</b>	<b>5,602,960</b>	<b>5,407,442</b>	<b>195,518</b>

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Transportation:			
Administration, public works:			
Salaries	211,768	210,844	
Fringe benefits	78,340	69,735	
Operating expenditures	11,850	8,279	
<b>Total administration, public works</b>	<b>301,958</b>	<b>288,858</b>	<b>13,100</b>
Street repair and construction:			
Salaries	251,009	243,537	
Fringe benefits	106,287	101,443	
Operating expenditures	1,713,481	1,651,098	
<b>Total street repair and construction</b>	<b>2,070,777</b>	<b>1,996,078</b>	<b>74,699</b>
Fleet maintenance:			
Salaries	82,698	76,312	
Fringe benefits	40,619	38,321	
Operating expenditures	57,714	46,031	
<b>Total fleet maintenance</b>	<b>181,031</b>	<b>160,664</b>	<b>20,367</b>
<b>Total transportation</b>	<b>2,553,766</b>	<b>2,445,600</b>	<b>108,166</b>
Environmental protection:			
Stormwater:			
Salaries	70,308	67,422	
Fringe benefits	20,318	19,881	
Operating expenditures	166,374	124,409	
<b>Total environmental protection</b>	<b>257,000</b>	<b>211,712</b>	<b>45,288</b>

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Cultural and recreation:			
Recreation:			
Salaries	420,724	413,344	
Fringe benefits	132,822	130,357	
Operating expenditures	220,766	174,295	
Capital outlay	67,253	66,243	
<b>Total recreation</b>	<b>841,565</b>	<b>784,239</b>	<b>57,326</b>
Community Resource Center:			
Salaries	78,255	72,372	
Fringe benefits	20,731	19,350	
Operating expenditures	18,640	14,848	
<b>Total resource center</b>	<b>117,626</b>	<b>106,570</b>	<b>11,056</b>
Smith Park			
Operating expenditures	22,200	17,027	
<b>Total Smith Park</b>	<b>22,200</b>	<b>17,027</b>	<b>5,173</b>
<b>Total cultural and recreation</b>	<b>981,391</b>	<b>907,836</b>	<b>73,555</b>
Debt service			
Principal	1,644,570	1,642,697	1,873
Interest and fees	672,244	655,200	17,044
<b>Total debt service</b>	<b>2,316,814</b>	<b>2,297,897</b>	<b>18,917</b>
<b>Total expenditures</b>	<b>14,331,940</b>	<b>13,720,575</b>	<b>611,365</b>
<b>Revenues over (under) expenditures</b>	<b>(2,942,887)</b>	<b>(2,047,306)</b>	<b>895,581</b>

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Other financing sources (uses):			
Appropriated fund balance	1,929,285	-	(1,929,285)
Operating transfers from other funds:			
Accommodations Tax Fund	622,602	360,078	(262,524)
Capital Projects	20,000	-	(20,000)
Capital Reserve	31,000	-	(31,000)
Debt issued	340,000	318,000	(22,000)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	2,942,887	678,078	(2,264,809)
	<hr/>	<hr/>	<hr/>
Revenues and other financing sources over expenditures and other financing uses	-	(1,369,228)	(1,369,228)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Fund balance, beginning		6,148,930	
		<hr/>	
Fund balance, ending		4,779,702	
		<hr/> <hr/>	

## Capital Reserve Fund

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Budget	Actual	Variance Favorable (Unfavorable)
<hr/>			
Revenue:			
Investment earnings	-	472	472
<hr/>			
Other financing sources (uses):			
Appropriated fund balance	59,000	-	(59,000)
Transfer to General Fund	(31,000)	-	31,000
Transfer to Solid Waste Fund	(28,000)	-	28,000
<hr/>			
Total other financing sources (uses)	-	-	-
<hr/>			
Revenue and other financing sources over other financing uses	-	472	472
<hr/>			
Fund balance, July 1		424,667	
Fund balance, June 30		425,139	
<hr/> <hr/>			

Note: This fund is budgeted separately, but is consolidated in the General Fund for reporting purposes.

Town of Oak Island, North Carolina  
Combining Balance Sheet  
Other Governmental Funds  
June 30, 2012

Exhibit B-3

	<u>Total Other Governmental Special Revenue Funds</u>	<u>Total Other Governmental Capital Project Funds</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3,648,084	93,966	3,742,050
Restricted cash	-	392,612	392,612
Assessments receivable, net	6,405	-	6,405
Accounts receivable	211,821	11,492	223,313
Prepays	56,163	-	56,163
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>3,922,473</b>	<b>498,070</b>	<b>4,420,543</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	8,953	76,506	85,459
Deferred revenue	6,405	-	6,405
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<b>15,358</b>	<b>76,506</b>	<b>91,864</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Fund balances:</b>			
Non Spendable			
Prepays	56,163	-	56,163
Restricted			
Tourism	3,501,523		3,501,523
Public Safety	289,465		289,465
Cultural and Recreation	59,964		59,964
Committed			
Administration		420,784	420,784
Public Safety		780	780
	<hr/>	<hr/>	<hr/>
<b>Total fund balances</b>	<b>3,907,115</b>	<b>421,564</b>	<b>4,328,679</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Total liabilities and fund balances</b>	<b>3,922,473</b>	<b>498,070</b>	<b>4,420,543</b>

Town of Oak Island, North Carolina  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Other Governmental Funds  
For the Year Ended June 30, 2012

Exhibit B-4

	<u>Total Other Governmental Special Revenue Funds</u>	<u>Total Other Governmental Capital Project Funds</u>	<u>Total Other Governmental Funds</u>
<b>REVENUES</b>			
Other taxes and licenses	1,068,434	-	1,068,434
Restricted intergovernmental	71,568	-	71,568
Investment earnings	4,462	695	5,157
Miscellaneous	15,932	-	15,932
	<u>1,160,396</u>	<u>695</u>	<u>1,161,091</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	115,795	115,795
Public Safety	112,181	-	112,181
Culture and recreation	162,764	-	162,764
	<u>274,945</u>	<u>115,795</u>	<u>390,740</u>
Excess (deficiency) of revenues over expenditures	<u>885,451</u>	<u>(115,100)</u>	<u>770,351</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	-	-
Transfers out	(487,078)	-	(487,078)
	<u>(487,078)</u>	<u>-</u>	<u>(487,078)</u>
Total other financing sources and uses	<u>(487,078)</u>	<u>-</u>	<u>(487,078)</u>
Net change in fund balances	398,373	(115,100)	283,273
Fund balances - beginning	3,508,742	536,664	4,045,406
Fund balances - ending	<u>3,907,115</u>	<u>421,564</u>	<u>4,328,679</u>

Town of Oak Island, North Carolina  
 Combining Balance Sheet  
 Other Governmental Special Revenue Funds  
 June 30, 2012

Exhibit B-5

	<u>Accommodations</u> <u>Tax Fund</u>	<u>Emergency 911</u> <u>Fund</u>	<u>Beach</u> <u>Preservation</u> <u>Fund</u>	<u>Total Other</u> <u>Governmental</u> <u>Special Revenue</u> <u>Funds</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	3,295,549	292,427	60,108	3,648,084
Assessments receivable, net	6,405	-	-	6,405
Accounts receivable	206,054	5,767	-	211,821
Prepays	56,163	-	-	56,163
<b>Total assets</b>	<b>3,564,171</b>	<b>298,194</b>	<b>60,108</b>	<b>3,922,473</b>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	80	8,729	144	8,953
Deferred revenue	6,405	-	-	6,405
<b>Total liabilities</b>	<b>6,485</b>	<b>8,729</b>	<b>144</b>	<b>15,358</b>
 <b>Fund balances:</b>				
Non Spendable				
Prepays	56,163			56,163
Restricted				
Tourism	3,501,523	-	-	3,501,523
Public Safety	-	289,465	-	289,465
Cultural and Recreation			59,964	59,964
<b>Total fund balances</b>	<b>3,557,686</b>	<b>289,465</b>	<b>59,964</b>	<b>3,907,115</b>
<b>Total liabilities and fund balances</b>	<b>3,564,171</b>	<b>298,194</b>	<b>60,108</b>	<b>3,922,473</b>

**Town of Oak Island, North Carolina**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Other Governmental Special Revenue Funds**  
**For the Year Ended June 30, 2012**

Exhibit B-6

	<u>Accommodations</u> <u>Tax Fund</u>	<u>Emergency 911</u> <u>Fund</u>	<u>Beach</u> <u>Preservation</u> <u>Fund</u>	<u>Total Other</u> <u>Governmental</u> <u>Special Revenue</u> <u>Funds</u>
<b>REVENUES</b>				
Other taxes and licenses	1,068,434	-	-	1,068,434
Restricted intergovernmental	2,365	69,203	-	71,568
Investment earnings	4,041	358	63	4,462
Miscellaneous	87	-	15,845	15,932
Total revenues	<u>1,074,927</u>	<u>69,561</u>	<u>15,908</u>	<u>1,160,396</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	-	112,181	-	112,181
Culture and recreation	153,273	-	9,491	162,764
Total Expenditures	<u>153,273</u>	<u>112,181</u>	<u>9,491</u>	<u>274,945</u>
Excess (deficiency) of revenues over expenditures	<u>921,654</u>	<u>(42,620)</u>	<u>6,417</u>	<u>885,451</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(487,078)	-	-	(487,078)
Total other financing sources and uses	<u>(487,078)</u>	<u>-</u>	<u>-</u>	<u>(487,078)</u>
Net change in fund balances	434,576	(42,620)	6,417	398,373
Fund balances - beginning	<u>3,123,110</u>	<u>332,085</u>	<u>53,547</u>	<u>3,508,742</u>
Fund balances - ending	<u><u>3,557,686</u></u>	<u><u>289,465</u></u>	<u><u>59,964</u></u>	<u><u>3,907,115</u></u>

Town of Oak Island, North Carolina  
Special Revenue - Accommodations Tax Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Other taxes and licenses:			
Accommodations tax receipts	560,000	641,118	81,118
Accommodations tax receipts, 2%	372,000	427,316	55,316
<b>Total other taxes and licenses</b>	<b>932,000</b>	<b>1,068,434</b>	<b>136,434</b>
Restricted intergovernmental:			
NCDNER mosquito control revenue	-	2,365	2,365
<b>Total restricted intergovernmental</b>	<b>-</b>	<b>2,365</b>	<b>2,365</b>
Investment earnings:			
Interest earned	-	4,041	4,041
Miscellaneous:			
Sand Project assessments	-	22	22
Interest earned on assessments	-	65	65
<b>Total miscellaneous</b>	<b>-</b>	<b>87</b>	<b>87</b>
<b>Total revenue</b>	<b>932,000</b>	<b>1,074,927</b>	<b>142,927</b>
Expenditures:			
Cultural and recreational:			
Professional services	15,000	4,960	
Greenhouse expenses	8,100	7,601	
Mosquito control	7,500	7,388	
Beach access expenses	6,200	6,179	
Erosion control expenses	35,000	29,800	
Dune maintenance	15,000	8,529	
Contracted services	10,000	10,000	
Bulkheading	14,680	11,100	
Boat ramp maintenance and construction	300	228	
Oak Island pier	68,220	67,488	
Commercial area improvement	52,800	-	
Reserve - 2% Accomodations Tax	142,000	-	
<b>Total cultural and recreational</b>	<b>374,800</b>	<b>153,273</b>	<b>221,527</b>

Town of Oak Island, North Carolina  
Special Revenue - Accommodations Tax Fund  
Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
Special Revenue - Accommodations Tax Fund  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Total expenditures</b>	374,800	153,273	221,527
<b>Revenue over expenditures</b>	557,200	921,654	364,454
Other financing sources (uses):			
Appropriated fund balance	205,820	-	(205,820)
Transfers to:			
General Fund	(622,602)	(360,078)	262,524
Solid Waste Fund	(23,000)	(23,000)	-
Golf Course Fund	(117,418)	(104,000)	13,418
<b>Total other financing uses</b>	(557,200)	(487,078)	70,122
<b>Revenue and other financing sources over expenditures and other financing uses</b>	-	434,576	434,576
Fund balance, July 1		3,123,110	
Fund balance, June 30		3,557,686	

## Special Revenue - Emergency 911 Fund

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Restricted intergovernmental:			
State 911 Fund	69,203	69,203	-
<b>Total restricted intergovernmental</b>	<b>69,203</b>	<b>69,203</b>	<b>-</b>
Investment earnings:			
Interest earned	-	358	358
<b>Total revenue</b>	<b>69,203</b>	<b>69,561</b>	<b>358</b>
Expenditures:			
Public safety:			
Maintenance and repair - equipment	16,870	16,801	
Departmental supplies	39,977	39,973	
911 service	66,003	29,460	
Capital outlay	25,949	25,947	
<b>Total public safety</b>	<b>148,799</b>	<b>112,181</b>	<b>36,618</b>
<b>Revenue over expenditures</b>	<b>(79,596)</b>	<b>(42,620)</b>	<b>36,976</b>
Other financing sources (uses):			
Appropriated fund balance	79,596	-	(79,596)
<b>Total other financing uses</b>	<b>79,596</b>	<b>-</b>	<b>(79,596)</b>
<b>Revenue and other financing sources under expenditures and other financing uses</b>	<b>-</b>	<b>(42,620)</b>	<b>(42,620)</b>
Fund balance, July 1		332,085	
Fund balance, June 30		289,465	

## Special Revenue - Beach Preservation Fund

## Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Investment earnings	100	63	(37)
Miscellaneous:			
Fund raisers	6,500	9,560	3,060
Donations	2,000	1,270	(730)
Memberships	3,400	5,015	1,615
<b>Total miscellaneous</b>	<b>11,900</b>	<b>15,845</b>	<b>3,945</b>
<b>Total revenue</b>	<b>12,000</b>	<b>15,908</b>	<b>3,908</b>
Expenditures:			
Cultural and recreational:			
Miscellaneous supplies	1,000	300	
Float and other events	1,000	877	
Beach lobbyist	1,500	1,200	
Fund raiser events	3,200	3,000	
Miscellaneous	1,000	866	
Beach Preservation Newsletter	1,300	747	
Beach Lover's Campaign	3,000	2,501	
<b>Total expenditures</b>	<b>12,000</b>	<b>9,491</b>	<b>2,509</b>
<b>Revenue over (under) expenditures</b>	<b>-</b>	<b>6,417</b>	<b>6,417</b>
Other financing sources:			
Appropriated fund balance	-	-	-
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Revenues and other financing sources over expenditures</b>	<b>-</b>	<b>6,417</b>	<b>6,417</b>
Fund balances, July 1		53,547	
Fund balances, June 30		59,964	

Town of Oak Island, North Carolina  
Combining Balance Sheet  
Other Governmental Capital Project Funds  
June 30, 2012

Exhibit B-10

	<u>Police Headquarters Project</u>	<u>Town Hall Replacement Capital Project</u>	<u>Total Other Governmental Capital Project Funds</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	77,286	16,680	93,966
Restricted cash		392,612	392,612
Accounts receivable	-	11,492	11,492
<b>Total assets</b>	<b>77,286</b>	<b>420,784</b>	<b>498,070</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	76,506	-	76,506
<b>Total liabilities</b>	<b>76,506</b>	-	<b>76,506</b>
 <b>Fund balances:</b>			
Committed			
Administration		420,784	420,784
Public Safety	780		780
<b>Total fund balances</b>	<b>780</b>	<b>420,784</b>	<b>421,564</b>
<b>Total liabilities and fund balances</b>	<b>77,286</b>	<b>420,784</b>	<b>498,070</b>

Town of Oak Island, North Carolina  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Other Governmental Capital Project Funds  
 For the Year Ended June 30, 2012

Exhibit B-11

	<u>Police Headquarters Project</u>	<u>Town Hall Replacement Capital Project</u>	<u>Total Other Governmental Capital Project Funds</u>
<b>REVENUES</b>			
Investment earnings	<u>86</u>	<u>609</u>	<u>695</u>
Total revenues	<u>86</u>	<u>609</u>	<u>695</u>
<b>EXPENDITURES</b>			
Current:			
General government	<u>-</u>	<u>115,795</u>	<u>115,795</u>
Total Expenditures	<u>-</u>	<u>115,795</u>	<u>115,795</u>
Net change in fund balances	86	(115,186)	(115,100)
Fund balances - beginning	<u>694</u>	<u>535,970</u>	<u>536,664</u>
Fund balances - ending	<u><u>780</u></u>	<u><u>420,784</u></u>	<u><u>421,564</u></u>

Town of Oak Island, North Carolina  
Capital Projects - Police Headquarters

Exhibit B-12

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2012

	Project	Prior	Current	Total
	Authorization	Year	Year	to Date
Revenue:				
Interest on investments	207,427	208,119	86	208,205
<b>Total revenue</b>	<b>207,427</b>	<b>208,119</b>	<b>86</b>	<b>208,205</b>
Expenditures:				
Project expenditures:				
Professional services	165,140	165,140	-	165,140
Environmental remediation costs	838,647	838,646	-	838,646
Miscellaneous	27,996	27,995	-	27,995
Building construction	5,160,245	5,160,246	-	5,160,246
Capital Outlay	49,059	49,058	-	49,058
<b>Total expenditures</b>	<b>6,241,087</b>	<b>6,241,085</b>	<b>-</b>	<b>6,241,085</b>
<b>Revenue under expenditures</b>	<b>(6,033,660)</b>	<b>(6,032,966)</b>	<b>86</b>	<b>(6,032,880)</b>
Other financing sources:				
Operating transfers in:				
Capital Reserve Fund	354,000	354,000	-	354,000
General Fund	16,445	16,445	-	16,445
Debt Issued	5,663,215	5,663,215	-	5,663,215
<b>Total other financing sources</b>	<b>6,033,660</b>	<b>6,033,660</b>	<b>-</b>	<b>6,033,660</b>
<b>Revenue and other financing sources over (under) expenditures</b>	<b>-</b>	<b>694</b>	<b>86</b>	<b>780</b>
Fund balance, July 1			694	
Fund balance, June 30			780	

Capital Projects Fund - Town Hall Replacement

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2012

	Project Authorization	Prior Year	Current Year	Total To Date
Revenue:				
Restricted Intergovernmental				
Rural Center PEG Grant	25,000	25,000	-	25,000
Investment earnings	4,828	4,938	609	5,547
<b>Total revenue</b>	<b>29,828</b>	<b>29,938</b>	<b>609</b>	<b>30,547</b>
Expenditures:				
Capital outlay:				
General government				
Professional services	193,152	193,152	-	193,152
Special inspections	22,506	22,505	-	22,505
Prof svc. - environmental remediation	255,515	188,082	49,081	237,163
Miscellaneous	45,835	45,412	-	45,412
Capital outlay - land	628,742	628,741	-	628,741
Land improvements	8,305	8,305	-	8,305
Construction	2,608,541	2,554,160	25,876	2,580,036
Site work	53,769	53,769	-	53,769
Furnishings	30,812	30,812	-	30,812
Equipment	382,331	317,735	40,838	358,573
Contingency	50,000	-	-	-
<b>Total expenditures</b>	<b>4,279,508</b>	<b>4,042,673</b>	<b>115,795</b>	<b>4,158,468</b>
<b>Revenue under expenditures</b>	<b>(4,249,680)</b>	<b>(4,012,735)</b>	<b>(115,186)</b>	<b>(4,127,921)</b>
Other financing sources:				
Transfer to General Fund	(650,320)	(351,295)	-	(351,295)
Proceeds of installment purchases	4,900,000	4,900,000	-	4,900,000
<b>Total other financing sources</b>	<b>4,249,680</b>	<b>4,548,705</b>	<b>-</b>	<b>4,548,705</b>
<b>Revenue and other financing sources (under) expenditures</b>	<b>-</b>	<b>535,970</b>	<b>(115,186)</b>	<b>420,784</b>
Fund balance, July 1			535,970	
Fund balance, June 30			420,784	

**Individual Fund Statements and Schedules**

**Proprietary Funds**

Town of Oak Island, North Carolina  
Water Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses) -  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Operating revenue: Charges for services</b>			
Charges for utilities	2,453,685	2,676,373	222,688
Reconnect fees	45,000	52,699	7,699
Late fees	50,000	62,978	12,978
Water taps	15,000	61,526	46,526
	<b>2,563,685</b>	<b>2,853,576</b>	<b>289,891</b>
Other operating revenue	262,905	262,571	(334)
<b>Total operating revenue</b>	<b>2,826,590</b>	<b>3,116,147</b>	<b>289,557</b>
<b>Non-operating revenue:</b>			
Sale of fixed assets	-	27,875	27,875
Impact fees	15,000	28,494	13,494
FEMA Reimbursement	2,599	2,599	-
Interest on investments	4,000	4,252	252
<b>Total non-operating revenue</b>	<b>21,599</b>	<b>63,220</b>	<b>41,621</b>
<b>Total revenue</b>	<b>2,848,189</b>	<b>3,179,367</b>	<b>331,178</b>
<b>Expenditures</b>			
<b>Water administration:</b>			
Salaries	69,544	69,204	
Fringe benefits	35,782	35,145	
Operating expenditures	67,220	62,000	
<b>Total water administration</b>	<b>172,546</b>	<b>166,349</b>	<b>6,197</b>
<b>Water maintenance</b>			
Salaries	438,370	433,179	
Fringe benefits	222,388	211,184	
Operating expenditures	648,715	631,183	
Capital outlay	635,698	679,624	
Cost of water	846,170	755,710	
<b>Total water maintenance</b>	<b>2,791,341</b>	<b>2,710,880</b>	<b>80,461</b>

Town of Oak Island, North Carolina  
Water Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses) -  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Debt payments</b>			
Line relocation NCDOT	145,000	141,899	3,101
<b>Total expenditures</b>	<b>3,108,887</b>	<b>3,019,128</b>	<b>89,759</b>
<b>Revenue over expenditures</b>	<b>(260,698)</b>	<b>160,239</b>	<b>420,937</b>
<b>Other financing sources (uses):</b>			
Appropriated fund balance	291,314	-	(291,314)
Financing proceeds	425,698	425,698	-
<b>Transfers to:</b>			
Wastewater Fund	(320,181)	(155,181)	165,000
Wastewater Capital Project	(136,133)	(136,133)	-
<b>Total other financing uses</b>	<b>260,698</b>	<b>134,384</b>	<b>(126,314)</b>
<b>Revenue and other financing sources over expenditures and other uses</b>	<b>-</b>	<b>294,623</b>	<b>294,623</b>

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

Reconciling items:

Excess of revenues and other financing sources

over expenditures and other financing uses (above)	294,623
Financing proceeds	(425,698)
Principal payments	141,899
Book value of assets sold	(30,104)
Depreciation	(176,395)
Capital outlay	679,624
Increase in:	
Accrued vacation pay	(9,701)
Other postemployment benefits	(14,734)
<b>Change in net assets</b>	<b>459,514</b>

Town of Oak Island, North Carolina  
Wastewater Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Operating revenue:</b>			
Charges for services:			
In town utility charges	6,390,459	5,174,367	(1,216,092)
Caswell Beach utility charges	499,501	457,477	(42,024)
Sewer taps	5,000	29,100	24,100
Other operating revenue	-	3,067	3,067
<b>Total operating revenue</b>	<b>6,894,960</b>	<b>5,664,011</b>	<b>(1,230,949)</b>
<b>Non-operating revenue:</b>			
Impact fees	5,000	20,511	15,511
Sewer assessment revenue	3,181,000	5,733,337	2,552,337
Insurance refund	3,778	3,778	-
FEMA Reimbursement	5,623	5,623	-
Sale of fixed assets	-	14,001	14,001
Interest on sewer assessments	599,830	927,196	327,366
Interest on investments	10,000	9,168	(832)
<b>Total non-operating revenue</b>	<b>3,805,231</b>	<b>6,713,614</b>	<b>2,908,383</b>
<b>Total revenue</b>	<b>10,700,191</b>	<b>12,377,625</b>	<b>1,677,434</b>
<b>Expenditures:</b>			
Waste collection			
Salaries	210,366	204,147	
Fringe benefits	83,990	76,475	
Repairs and maintenance	111,300	103,536	
Other operating expenses	432,619	420,943	
Capital outlay	83,333	78,527	
<b>Total waste collection</b>	<b>921,608</b>	<b>883,628</b>	<b>37,980</b>
Waste treatment:			
Salaries	208,220	203,881	
Fringe benefits	71,830	66,605	
County treatment capital charge	3,157,083	3,090,366	
County treatment service fees	458,009	458,003	
Repairs and maintenance	44,500	41,794	
Other operating expenses	241,040	194,006	
Capital outlay	194,681	191,429	
<b>Total waste treatment</b>	<b>4,375,363</b>	<b>4,246,084</b>	<b>129,279</b>

Town of Oak Island, North Carolina  
Wastewater Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Debt service:</b>			
Principal payments	1,951,591	1,585,248	
Interest expense	5,077,010	4,982,729	
<b>Total debt service</b>	<b>7,028,601</b>	<b>6,567,977</b>	<b>460,624</b>
<b>Total expenditures</b>	<b>12,325,572</b>	<b>11,697,689</b>	<b>627,883</b>
<b>Revenue over (under) expenditures</b>	<b>(1,625,381)</b>	<b>679,936</b>	<b>2,305,317</b>
<b>Other financing sources (uses):</b>			
Fund balance appropriated	2,173,039	-	(2,173,039)
<b>Transfers from:</b>			
Water Fund	320,181	155,181	(165,000)
Sewer District Fund	405,200	405,200	-
<b>Transfers to:</b>			
Wastewater Capital Project Fund	(1,273,039)	(1,273,039)	-
<b>Total other financing sources</b>	<b>1,625,381</b>	<b>(712,658)</b>	<b>(2,338,039)</b>
<b>Excess of revenues and other financing sources over expenditures and other uses</b>	<b>-</b>	<b>(32,722)</b>	<b>(32,722)</b>

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

Excess of revenues and other financing sources over expenditures and other uses (above)	(32,722)
Payment of debt principal	1,585,248
Amortization of debt issuance costs	(98,158)
Amortization of premium and discount	2,189
Capitalization of equipment	269,956
Fixed Assets Donated	465,543
Wastewater assessments deferred	(5,330,328)
Accrued interest on assessments	381,681
Depreciation	(3,126,267)
<b>(Increase) decrease in:</b>	
Accrued vacation pay	15,597
Accrued OPEB liability	(14,578)
Interest expense accrual	11,677
<b>Sewer District Fund</b>	
Sewer District Fees	496,361
Interest Income	294
Transfer to Wastewater Fund	(405,200)
<b>Capital projects:</b>	
Transfers to other funds	136,133
Transfers from other funds	1,273,039
NC Rural Center Grant	500,000
<b>Change in net assets</b>	<b>(3,869,535)</b>

Town of Oak Island, North Carolina  
Wastewater Capital Projects Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Project Authorization	Prior Years	Current Year	Total to Date
Revenue:				
Restricted intergovernmental:				
NC Rural Center Grant-Phase I	-	96,849	-	96,849
NC Rural Center Grant-Phase II	500,000	-	500,000	500,000
NC Clean Water Management Trust-Phase I	2,487,000	2,302,812	-	2,302,812
Brunswick County Reimbursement	-	400,000	-	400,000
<b>Total restricted intergovernmental</b>	<b>2,987,000</b>	<b>2,799,661</b>	<b>500,000</b>	<b>3,299,661</b>
Miscellaneous income:				
Prepaid Discount Assessment	5,314,050	5,314,050	-	5,314,050
Miscellaneous Revenue	472,665	72,666	-	72,666
<b>Total miscellaneous</b>	<b>5,786,715</b>	<b>5,386,716</b>	<b>-</b>	<b>5,386,716</b>
Investment earnings	887,500	888,863	-	888,863
<b>Total revenue</b>	<b>9,661,215</b>	<b>9,075,240</b>	<b>500,000</b>	<b>9,575,240</b>
Expenditures:				
Capital outlay:				
Wastewater System:				
Phase I	60,910,195	60,086,935	1,321,809	61,408,744
Phase II	54,245,788	51,811,419	1,206,097	53,017,516
<b>Total expenditures</b>	<b>115,155,983</b>	<b>111,898,354</b>	<b>2,527,906</b>	<b>114,426,260</b>
<b>Revenues under expenditures</b>	<b>(105,494,768)</b>	<b>(102,823,114)</b>	<b>(2,027,906)</b>	<b>(104,851,020)</b>

## Wastewater Capital Projects Fund

## Schedule of Revenue, Expenditures and Other Financing Sources (Uses)

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2012

	Project Authorization	Prior Years	Current Year	Total to Date
<b>Other financing sources (uses):</b>				
Transfers In:				
General Fund	1,613,500	1,613,500	-	1,613,500
Water Fund	1,896,133	1,760,000	136,133	1,896,133
Wastewater Fund	1,273,039	-	1,273,039	1,273,039
Accommodations Tax Fund	331,041	331,041	-	331,041
Commercial Wastewater Project	266,706	266,706	-	266,706
Capital Reserve Fund	462,253	462,253	-	462,253
Transfers Out:				
General Fund	(1,613,500)	(1,613,500)	-	(1,613,500)
Water Fund	(1,760,000)	(1,760,000)	-	(1,760,000)
Wastewater Fund	(10,055,102)	(10,055,101)	-	(10,055,101)
Accommodations Tax Fund	(331,041)	(331,041)	-	(331,041)
Capital Reserve Fund	(728,959)	(728,959)	-	(728,959)
Reuse Park Phase I	(200,000)	(200,000)	-	(200,000)
Debt issued				
NC State Revolving Loan Fund-1st Allocation	9,000,000	7,034,839	490,007	7,524,846
NC State Revolving Loan Fund-2nd Allocation	8,500,000	5,269,363	1,309,804	6,579,167
Loan Proceeds-Land Acquisition	3,710,000	3,710,000	-	3,710,000
Revenue Bond Proceeds-Series 2008A-Ph I	33,040,698	33,601,329	-	33,601,329
Revenue Bond Proceeds-Series 2008B-Ph II	49,420,000	49,006,528	-	49,006,528
Revenue Bond Proceeds-Series 2011-Ph II	10,670,000	10,592,112	-	10,592,112
<b>Total other financing sources</b>	<b>105,494,768</b>	<b>98,959,070</b>	<b>3,208,983</b>	<b>102,168,053</b>
<b>Revenues and other financing sources over (under) expenditures</b>	<b>-</b>	<b>(3,864,044)</b>	<b>1,181,077</b>	<b>(2,682,967)</b>

Town of Oak Island, North Carolina  
Combining Statement of Net Assets  
Other Enterprise Funds  
June 30, 2012

Exhibit C-4

	Non-Major Enterprise Funds		
	<u>Solid Waste Fund</u>	<u>South Harbour Golf Course Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	252,192	139,236	391,428
Accounts Receivable, net	50,550	-	50,550
Other receivables	1,073	-	1,073
Inventories	-	8,300	8,300
	<u>303,815</u>	<u>147,536</u>	<u>451,351</u>
Non-current assets:			
Capital Assets:			
Land and improvements	-	1,401,795	1,401,795
Buildings	5,304	98,205	103,509
Motor Vehicles	82,884	-	82,884
Heavy Vehicles	688,417	-	688,417
Equipment	-	73,471	73,471
Less Accumulated depreciation	(546,700)	(52,713)	(599,413)
	<u>229,905</u>	<u>1,520,758</u>	<u>1,750,663</u>
Total non-current assets			
	<u>229,905</u>	<u>1,520,758</u>	<u>1,750,663</u>
Total assets	<u>533,720</u>	<u>1,668,294</u>	<u>2,202,014</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	55,555	6,025	61,580
Salaries payable	5,794	4,773	10,567
Unearned revenue	-	498	498
Compensated absences	5,302	5,471	10,773
	<u>66,651</u>	<u>16,767</u>	<u>83,418</u>
Total current liabilities			
	<u>66,651</u>	<u>16,767</u>	<u>83,418</u>
Non-current liabilities:			
Other postemployment benefits	17,619	-	17,619
Compensated absences	3,987	5,472	9,459
	<u>21,606</u>	<u>5,472</u>	<u>27,078</u>
Total non-current liabilities			
	<u>21,606</u>	<u>5,472</u>	<u>27,078</u>
Total liabilities	<u>88,257</u>	<u>22,239</u>	<u>110,496</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	229,905	1,520,758	1,750,663
Unrestricted	215,558	125,297	340,855
	<u>445,463</u>	<u>1,646,055</u>	<u>2,091,518</u>
Total net assets	<u>445,463</u>	<u>1,646,055</u>	<u>2,091,518</u>

Town of Oak Island, North Carolina  
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
 Other Enterprise Funds  
 For the Year Ended June 30, 2012

Exhibit C-5

	Non-Major Enterprise Funds		
	Solid Waste Fund	South Harbour Golf Course Fund	Total
<b>REVENUES</b>			
Charges for services	842,989	123,944	966,933
Miscellaneous	2,930	11,770	14,700
	845,919	135,714	981,633
<b>OPERATING EXPENSES</b>			
Administration	-	167,156	167,156
Waste collection and treatment	956,424	-	956,424
Repairs and maintenance	-	69,785	69,785
Depreciation	48,089	9,802	57,891
	1,004,513	246,743	1,251,256
Total Operating Expenses	1,004,513	246,743	1,251,256
Operating income (loss)	(158,594)	(111,029)	(269,623)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	332	94	426
Miscellaneous revenue	-	1,224	1,224
Operating grants and contributions	40,463	-	40,463
	40,795	1,318	42,113
Total non-operating revenue (expenses)	40,795	1,318	42,113
Income (loss) before contributions and transfers	(117,799)	(109,711)	(227,510)
Transfers in	23,000	104,000	127,000
Change in net assets	(94,799)	(5,711)	(100,510)
Total net assets - beginning	540,262	1,651,766	2,192,028
Total net assets - ending	445,463	1,646,055	2,091,518

Town of Oak Island, North Carolina  
Combining Statement of Cash Flows  
Other Enterprise Funds  
For the Year Ended June 30, 2012

	<b>Non-Major Enterprise Funds</b>		Total
	Solid Waste Fund	South Harbour Golf Course Fund	
<b>Cash Flows From Operating Activities</b>			
Cash received from customers	849,229	135,895	985,124
Cash paid for goods and services	(811,047)	(115,822)	(926,869)
Cash paid to employees	(140,031)	(121,579)	(261,610)
<b>Net cash provided by (used in) operating activities</b>	<b>(101,849)</b>	<b>(101,506)</b>	<b>(203,355)</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
Operating grants received	40,754		40,754
Transfers-in	23,000	104,000	127,000
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>63,754</b>	<b>104,000</b>	<b>167,754</b>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Debt proceeds			
Acquisition and construction of capital assets	(29,534)	-	(29,534)
<b>Net cash used in capital and related financing activities</b>	<b>(29,534)</b>	<b>-</b>	<b>(29,534)</b>
<b>Cash Flows Provided By Investing Activities</b>			
Interest earned	332	94	426
<b>Net cash provided by investing activities</b>	<b>332</b>	<b>94</b>	<b>426</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(67,297)</b>	<b>2,588</b>	<b>(64,709)</b>
<b>Cash and cash equivalents:</b>			
Beginning	319,489	135,424	454,913
Ending	252,192	138,012	390,204

(Continued)

Town of Oak Island, North Carolina  
Combining Statement of Cash Flows  
Other Enterprise Funds  
For the Year Ended June 30, 2012

	<b>Non-Major Enterprise Funds</b>		Total
	Solid Waste Fund	South Harbour Golf Course Fund	
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities			
Operating income (loss)	(158,594)	(111,029)	(269,623)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	48,089	9,802	57,891
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	3,310	-	3,310
Inventory		228	228
Increase (decrease) in:			
Accounts payable	956	(1,685)	(729)
Unearned revenue		181	181
Accrued wages	(67)	(202)	(269)
Accrued vacation pay	(2,867)	1,199	(1,668)
Accrued OPEB liability	7,324	-	7,324
<b>Total adjustments</b>	<b>56,745</b>	<b>9,523</b>	<b>66,268</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(101,849)</b>	<b>(101,506)</b>	<b>(203,355)</b>

## Solid Waste Fund

## Schedule of Revenue, Expenditures and Other Financing Sources (Uses)

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Operating revenue:			
Charges for services:			
Charges for collection	852,000	842,989	(9,011)
Other operating revenue	-	2,930	2,930
<b>Total operating revenue</b>	<b>852,000</b>	<b>845,919</b>	<b>(6,081)</b>
Non-operating revenue:			
FEMA reimbursement	35,799	35,800	1
Solid waste disposal tax	6,000	4,663	(1,337)
Interest on investments	500	332	(168)
<b>Total non-operating revenue</b>	<b>42,299</b>	<b>40,795</b>	<b>(1,504)</b>
<b>Total revenue</b>	<b>894,299</b>	<b>886,714</b>	<b>(7,585)</b>
Expenditures:			
Salaries	141,093	139,964	
Fringe benefits	54,665	52,694	
Operating expenditures	243,626	226,247	
Maintenance and repair - vehicles	27,560	27,555	
Recycling program	446,510	446,503	
Yard waste recycling	59,318	59,004	
Capital outlay	29,540	29,534	
<b>Total sanitation operation expenditures</b>	<b>1,002,312</b>	<b>981,501</b>	<b>20,811</b>
<b>Total revenue under expenditures</b>	<b>(108,013)</b>	<b>(94,787)</b>	<b>13,226</b>
Other financing sources (uses)			
Appropriated fund balance	57,013		(57,013)
Transfers in:			
Accommodations tax	23,000	23,000	-
Capital reserve	28,000	-	(28,000)
<b>Total other financing sources</b>	<b>108,013</b>	<b>23,000</b>	<b>(85,013)</b>
<b>Revenue and other financing sources over (under) expenditures and other uses</b>	<b>-</b>	<b>(71,787)</b>	<b>(71,787)</b>

Solid Waste Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)

Budget and Actual (Non-GAAP)

For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<hr/>			
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Revenue and other sources over (under)			
expenditures and other uses		(71,787)	
Capitalization of equipment		29,534	
Depreciation		(48,089)	
(Increase) decrease in:			
Accrued vacation pay		2,867	
Other postemployment benefits		(7,324)	
		<hr/>	
Change in net assets		<hr/> <hr/>	

Town of Oak Island, North Carolina  
South Harbour Golf Course Fund  
Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
Operating revenue:			
Charges for services:			
Annual Membership	30,000	20,481	(9,519)
Green Fee Play	99,000	103,463	4,463
Merchandise Sales	20,000	11,770	(8,230)
<b>Total operating revenue</b>	<b>149,000</b>	<b>135,714</b>	<b>(13,286)</b>
Non-operating Revenue			
FEMA reimbursement	1,224	1,224	-
Interest on investments	-	94	94
<b>Total non-operating revenue</b>	<b>1,224</b>	<b>1,318</b>	<b>94</b>
<b>Total revenue</b>	<b>150,224</b>	<b>137,032</b>	<b>(13,192)</b>
Expenditures:			
Administration			
Salaries	44,816	40,631	
Fringe benefits	3,473	3,118	
Operating expenditures	42,723	26,036	
<b>Total administration</b>	<b>91,012</b>	<b>69,785</b>	<b>21,227</b>
Maintenance			
Salaries	84,043	80,746	
Fringe benefits	29,567	29,549	
Operating expenditures	63,020	55,662	
<b>Total maintenance</b>	<b>176,630</b>	<b>165,957</b>	<b>10,673</b>
<b>Total expenditures</b>	<b>267,642</b>	<b>235,742</b>	<b>31,900</b>

Town of Oak Island, North Carolina  
South Harbour Golf Course Fund  
Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Total revenue under expenditures</b>	<b>(117,418)</b>	<b>(98,710)</b>	<b>18,708</b>
Other financing sources:			
Transfers in:			
Accommodations tax	117,418	104,000	(13,418)
<b>Total other financing sources</b>	<b>117,418</b>	<b>104,000</b>	<b>(13,418)</b>
<b>Revenue and other financing sources under expenditures</b>	<b>-</b>	<b>5,290</b>	<b>5,290</b>
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Revenue and other sources under expenditures and other uses		5,290	
Depreciation		(9,802)	
(Increase) decrease in:			
Accrued vacation pay		(1,199)	
<b>Change in net assets</b>		<b>(5,711)</b>	

Town of Oak Island, North Carolina  
 Sewer District Fund  
 Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
 Budget and Actual (Non-GAAP)  
 For the Year Ended June 30, 2012

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Non-operating Revenue</b>			
Sewer District Fees - Current	400,000	450,182	50,182
Sewer District Fees - Prior years	5,000	18,715	13,715
Penalties and interest	-	5,297	5,297
Interest on investments	200	294	94
<b>Total revenue</b>	<b>405,200</b>	<b>474,488</b>	<b>69,288</b>
<b>Expenditures:</b>			
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenue over expenditures</b>	<b>405,200</b>	<b>474,488</b>	<b>69,288</b>
<b>Other financing uses:</b>			
<b>Transfers out:</b>			
Wastewater Fund	(405,200)	(405,200)	-
<b>Revenue and other financing sources over expenditures</b>	<b>-</b>	<b>69,288</b>	<b>69,288</b>

## **Other Schedules**

Town of Oak Island  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2012

Exhibit D-1

Fiscal Year	Uncollected Balance June 30, 2011	Additions	Collections and Credits	Uncollected Balance June 30, 2012
2011-2012	-	6,830,366	6,510,859	319,507
2010-2011	331,130	1,117	134,444	197,803
2009-2010	121,715	-	28,697	93,018
2008-2009	62,649	-	15,137	47,512
2007-2008	27,186	-	3,825	23,361
2006-2007	13,131	-	1,428	11,703
2005 - 2006	12,813	-	737	12,076
2004 - 2005	9,577	-	389	9,188
2003 - 2004	10,067	-	397	9,670
2002 - 2003	8,967	-	359	8,608
2001 - 2002	8,558	-	8,558	-
	<u>605,793</u>	<u>6,831,483</u>	<u>6,704,830</u>	<u>732,446</u>
Less: Allowance for uncollectible accounts				<u>73,279</u>
Ad valorem taxes - net				<u><u>659,167</u></u>
Reconciliation with revenues:				
				6,735,314
				3,629
				8,551
				<u>6,747,494</u>
				<u>(42,664)</u>
				<u><u>6,704,830</u></u>

Town of Oak Island, North Carolina  
 Analysis of Current Tax Levy - Town-Wide Levy  
 Year Ended June 30, 2012

Exhibit D-2

	Town-Wide		Total Levy		
	Town-Wide Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	2,464,321,150	0.2750	6,776,883	6,673,677	103,206
Registered motor vehicles taxed at prior year's rate	20,470,536	0.1550	31,731		31,731
Late listing penalties	-		710	710	
<b>Total levy</b>	<b>2,484,791,686</b>		<b>6,809,324</b>	<b>6,674,387</b>	<b>134,937</b>
Discoveries:					
Current year taxes	6,363,920	0.2750	17,501	17,501	
Prior year taxes			3,930	3,930	
Penalties			1,079	1,079	
Abatements	(533,818)		(1,468)		(1,468)
<b>Total valuation</b>	<b>2,490,621,788</b>				
<b>Net levy</b>			6,830,366	6,696,897	133,469
Uncollected taxes at June 30, 2012			319,507	301,526	17,981
<b>Current year's taxes collected</b>			<b>6,510,859</b>	<b>6,395,371</b>	<b>115,488</b>
Current levy collection percentage			95.32%	95.50%	86.53%

Town of Oak Island, North Carolina  
Agency Fund  
Statement of Changes in Assets and Liabilities  
For the Year Ended June 30, 2012

Exhibit D-3

	Balance July 01, 2011	Additions	Deletions	Balance June 30, 2012
<hr/>				
Fines and Forfeitures				
Assets				
Cash and investments	15,840	-	15,840	-
	<hr/> <hr/>			
Liabilities				
Accounts payable and accrued liabilities	15,840		15,840	-
	<hr/> <hr/>			

## **Compliance Section**

**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 the  
Members of the Town Council  
Town of Oak Island  
Oak Island, NC 28465

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Oak Island, North Carolina, as of and for the year ended June 30, 2012, which collectively comprises the Town of Oak Island's basic financial statements, and have issued our report thereon, dated May 28, 2013. 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. The financial statements of the Town of Oak Island Board of Alcoholic Control were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 12-1, 12-2, 12-3 and 12-4, described in the accompanying schedule of findings and responses, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Oak Island's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 12-1, 12-2, 12-3 and 12-4.

We noted certain matters that we reported to management of the Town of Oak Island in a separate letter dated May 28, 2013.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the governing board, 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.

  
Certified Public Accountants

May 28, 2013

**Independent Auditor's Report On Compliance With Requirements Applicable To Each Major Federal Program And Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act**

Honorable Mayor and  
Members of the Town Council  
Town of Oak Island  
Oak Island, North Carolina

Compliance

We have audited the compliance of the Town of Oak Island, North Carolina, 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 Oak Island's major federal programs for the year ended June 30, 2012. The Town of Oak Island's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Oak Island's management. Our responsibility is to express an opinion on the Town of Oak Island's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, Audit 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Oak Island'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 on the Town of Oak Island's compliance with those requirements.

In our opinion, the Town of Oak Island complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Town of Oak Island is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Oak Island's internal control over compliance with requirements that could have a direct and material effect on a major federal programs to determine our 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 Town's internal control over compliance.

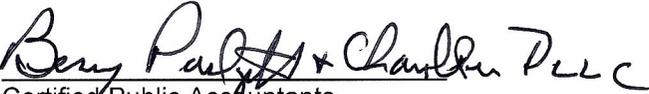
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we can consider to be significant deficiencies.

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 non compliance with a type of compliance requirement of a federal will not be prevented or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in items 12-1, 12-2, 12-3 and 12-4 to be significant deficiencies.

The Town of Oak Island's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, we express no opinion on the response.

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.

  
Certified Public Accountants

May 28, 2013

**Independent Auditor's 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**

Honorable Mayor and  
Members of the Town Council  
Town of Oak Island  
Oak Island, North Carolina

Compliance

We have audited Town of Oak Island, North Carolina, compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2012. The Town of Oak Island's major State programs are identified in the summary of auditor's results section of 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 Oak Island's management. Our responsibility is to express an opinion on the Town of Oak Island's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Town of Oak Island'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 on the Town of Oak Island's compliance with those requirements.

In our opinion, the Town of Oak Island complied, in all material respects, with the 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, 2012

Internal Control Over Compliance

Management of the Town of Oak Island is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Oak Island's internal control over compliance with requirements that could have a direct and material effect on a major State program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we can consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs in items 12-1, 12-2, 12-3 and 12-4 to be significant deficiencies.

The Town of Oak Island's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, we express no opinion on the response.

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.

  
Certified Public Accountants

May 28, 2013

**Town of Oak Island, North Carolina**  
**Schedule of Expenditures of Federal and State Awards**  
**For year ended June 30, 2012**

**Exhibit E-1**

<u>Grantor/Pass-through Grantor/Program Title</u>	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures		
			Federal	State	Local
<b>FEDERAL GRANTS:</b>					
Department of Homeland Security					
Staffing for Adequate Fire and Emergency Response	97.044	EMW-2008-FF-00526	147,168		213,726
Assistance to Firefighters FY 2010	97.044	EMW-2010-FO-05137	106,027		7,859
Passed through the North Carolina Department of Public Safety					
Marine Firefighting Capability	97.067	2011-SS-00119-1007	14,000		
Public Assistance	97.042	FEMA-4019-DR-NC	47,322	15,774	
Environmental Protection Agency					
Passed through NC Department of Environment and Natural Resources					
Capitalization Grants for Clean Water State Revolving Loan					
	66-458	E-SRF-T-09-0182	1,047,843	261,961	12,005
<b>TOTAL FEDERAL GRANTS:</b>			<b>1,362,360</b>	<b>277,735</b>	<b>233,590</b>
<b>STATE GRANTS:</b>					
NC Rural Economic Development Center, Inc. 2008-2009 Clean Water Partners' Round I Supplemental Grant					
		2008-290-40101-112		500,000	706,097
North Carolina Department of Transportation Street Aid - Powell Bill					
	DOT - 4			1,485,460	
<b>TOTAL STATE:</b>				<b>1,985,460</b>	<b>706,097</b>
<b>Total Federal and State Awards</b>			<b>1,362,360</b>	<b>2,263,195</b>	<b>939,687</b>

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 Oak Island 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.

2. Loans Outstanding

The Town of Oak Island had the following loan balances outstanding at June 30, 2012. These loan balances outstanding are also included in the federal and State expenditures presented in the schedule

<u>Program Title</u>	CFDA Number	State Pass-through Grantor's Number	Amount
			Outstanding
Water Pollution Control Revolving Loan Fund	6634.58	E-SRF-T-07-0173	6,126,940
Water Pollution Control Revolving Loan Fund	6634.58	E-SRF-T-09-0182	5,764,570

3 Subrecipients

Of the federal and State expenditures presented in the schedule, The Town of Oak Island provided State awards to subrecipients as follows:

<u>Program Title</u>	CFDA Number	State Pass-through Grantor's Number	Federal	State
			Expenditures	Expenditures
Water Pollution Control Revolving Loan Fund	66-458	E-SRF-T-09-0182	1,047,843	261,961

**Town of Oak Island, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? \_\_yes      X no
  
- Significant Deficiencies identified that are not considered to be material weaknesses Xyes      \_\_no

Noncompliance material to financial statements noted \_\_yes      X no

Federal Awards

Type of auditor's report issued on compliance for major Federal programs: Unqualified

Internal control over major Federal programs:

- Material weakness identified? \_\_yes      X no
  
- Significant Deficiency identified that is not considered to be material weakness Xyes      \_\_no

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 \_\_yes      X no

Identification of major Federal programs:

<u>CFDA</u>	<u>Program name</u>
66-458	Capitalization Grants for Clean Water State Revolving Fund

Dollar threshold used to distinguish Between Type A and Type B Programs \$ 300,000

Auditee qualified as low risk auditee? \_\_ yes      X no

**Town of Oak Island, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012**

State Awards

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

Internal control over major State programs:

- Material weakness identified? \_\_yes      X no
  
- Significant Deficiency identified that is not considered to be material weakness Xyes      \_\_no

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 \_\_yes      X no

Identification of major State programs:

<u>CFDA / State Number</u>	<u>Program name</u>
DOT-4	NC DOT Street Aid -Powell Bill
	2008-2009 Clean Water Partners' Round 1 Supplemental Grant

II. Financial Statement Findings

MATERIAL WEAKNESS – None

SIGNIFICANT DEFICIENCIES

**Finding 12-1 Negative Fund Balance**

Criteria: The Local Government Budget and Fiscal Control Act requires that each fund have current assets sufficient to meet its current obligations.

Condition: Expenditures were made before budgeted revenues were received.

Effect: The town had a negative fund balance in the Waste Water System Capital Project..

Cause: Anticipated revenues were not available in the same period that expenditures were made.

Recommendation: Expenditure should not be made until revenues are available.

Views of responsible officials and planned corrective actions: The Town agrees with the finding.

**Finding 12-2 Expenditures Exceed Appropriation**

Criteria: NC General Statute 159-8 requires that expenditures may not exceed budgeted appropriations..

Condition: At June 30, 2012, the expenditures in the Wastewater Capital Project exceeded budget appropriations.

Effect: Over-expenditure of budget

Cause: Expenditures were not sufficiently monitored to allow timely budget amendments to cover obligation of funds.

Recommendation: Constant review of expenditures to see that necessary budget amendments are made and approved.

Views of responsible officials and planned corrective action: The Town agrees with the finding.

**Finding 12-3 Failure to Make Timely Deposits**

Criteria: G.S. 159-32 requires that all monies collected or received by any department or agency of a local government be deposited daily with the finance officer or in an official depository.

Condition: Money is being collected at some departments or locations that is not submitted to the finance officer or deposited in an official depository daily.

Effect: Failure to comply with State Statutes.

Cause: Failure of employees to understand Town policies and State Statutes relating to cash receipts.

Recommendation: All employees that collect town revenues be trained in Town and State requirements for handling cash.

Views of responsible officials and planned corrective action: The Town agrees with the finding.

**Finding 12-4 Failure to Pre-audit Expenditures**

Criteria: General Statute 159-28(a) specifies that before a local government incurs any obligation, the finance officer must ensure that there is an appropriation in the budget ordinance authorizing the expenditure.

Condition: Some purchases are made without proper pre-audit and by an employee not approved to make purchases.

Effect: Violation of Town policies and State Statutes.

Cause: Failure of employees to understand purchase procedures and State Statutes.

Recommendation: Purchasing procedures be reviewed with appropriate employees.

Views of responsible officials and planned corrective action: The Town agrees with the finding.

**Town of Oak Island, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2012**

III. Federal Awards Findings and Questioned Costs

See item II above: Findings 12-1, 12-2, 12-3 and 12-4

IV. State Awards Findings and Questioned Costs

See item II above: Findings 12-1, 12-2, 12-3 and 12-4

**Town of Oak Island, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2012**

**Exhibit E-3**

I. Financial Statement Findings

**Finding 12-1**

Name of contact person: Bonnie M. Schwerd, Finance Officer

Corrective Action: The negative fund balances will be covered by inter-fund transfers until additional debt proceeds or excess revenues are available.

Proposed completion date: June 30, 2013

**Finding 12-2**

Name of contact person: Bonnie M. Schwerd

Corrective Action: Monthly financial reports will be compared with budgets to allow timely amendments of budgets.

Proposed completion date: June 30, 2013

**Finding 12-3**

Name of contact person: Bonnie M. Schwerd

Corrective Action: Training of appropriate employees will be given in daily deposit requirements.

Proposed completion date: June 30, 2013

**Finding 12-4**

Name of contact person: Bonnie M. Schwerd

Corrective Action: The Town will train staff on the pre-audit requirements and will review these requirements at future staff meetings.

Proposed completion date: June 30, 2013

II. Federal Awards Findings

See Item 1 above: Findings 12-1, 12-2, 12-3 and 12-4.

III. State Awards Findings

See Item 1 above: Findings 12-1, 12-2, 12-3 and 12-4.

**Town of Oak Island, North Carolina  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2012**

**Exhibit E-4**

**Finding: 11-1 (Negative fund balance)**

Status: The condition continues.

**Finding: 11-2**

Status: Corrected

**Finding: 11-3**

Status: Corrected

**Finding: 11-4**

Status: Corrected

**Finding 11-5**

Status: Corrected