

# TOWN OF OAK ISLAND NORTH CAROLINA



## ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**TOWN OF OAK ISLAND, NORTH CAROLINA**  
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For the Year Ended June 30, 2013

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## **Introductory Section**

**Town of Oak Island, North Carolina  
List of Principal Officials  
June 30, 2013**

Mayor and Town Council

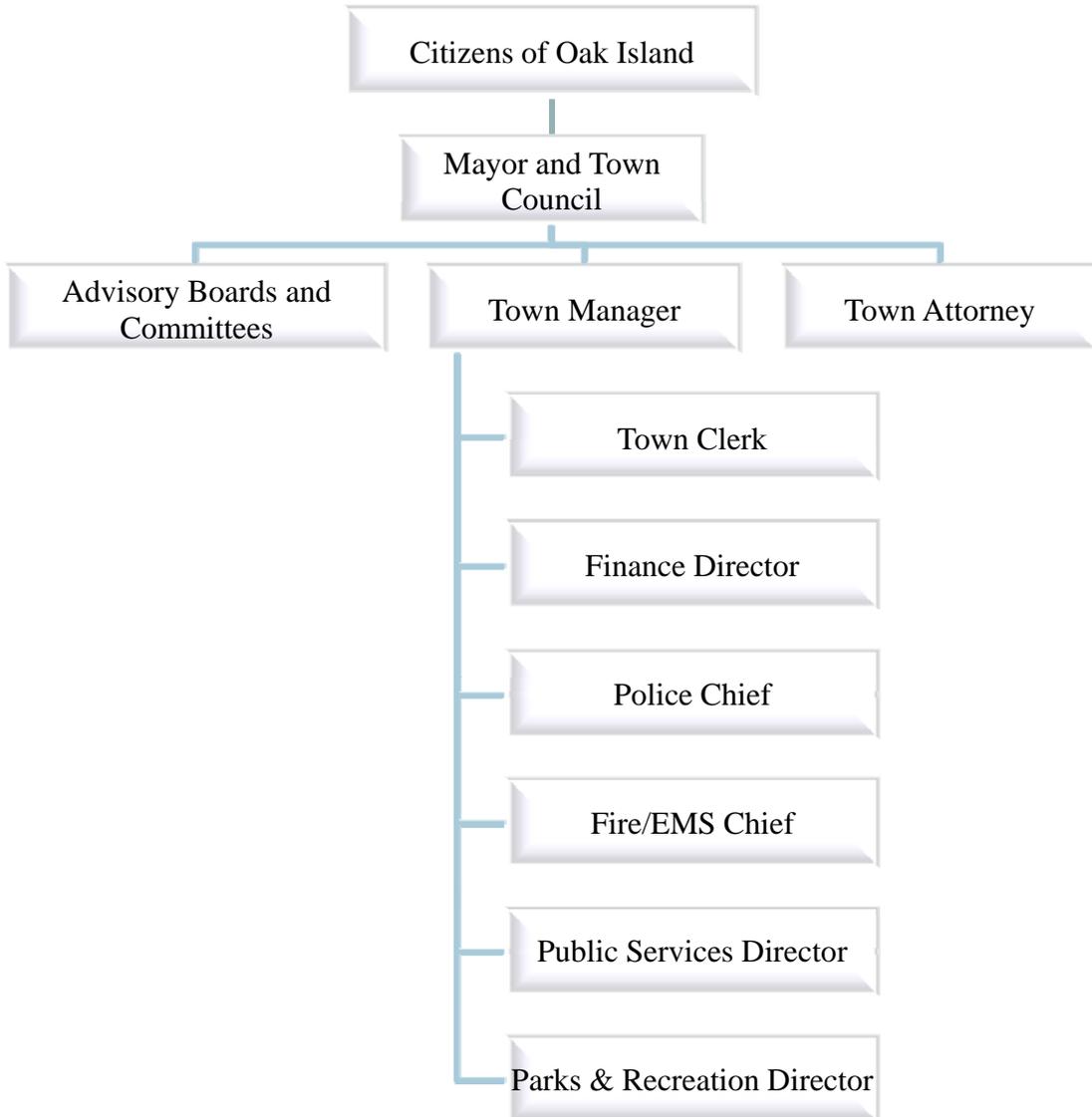
Betty W. Wallace, Mayor  
James B. Medlin, Mayor Pro Tem  
Dara F. Royal  
Carol Painter  
Danny Kiser  
Jeff Winecuff

Town Officials

Steve Foster  
Lisa Stites  
Van Eddinger  
Chris Anselmo  
John Michaux  
Bonnie M. Schwerd  
David Kelly  
Kellie Beeson  
Christy Fox

Town Manager  
Town Clerk  
Chief of Police  
Fire Chief  
Public Works Director  
Finance Director  
Public Utilities Director  
Parks and Recreation Director  
Tax Collector/Customer Service

**Town of Oak Island, North Carolina**  
**Organizational Chart**  
**June 30, 2013**



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## **Financial Section**

Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Oak Island, North Carolina, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town Oak Island Board of Alcoholic Control were not audited in accordance with Government Auditing Standards.

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

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

## ***Opinions***

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Oak Island, North Carolina as of June 30, 2013, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding Progress and Schedules of Employer Contributions, on Exhibit A-1 through A-4, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

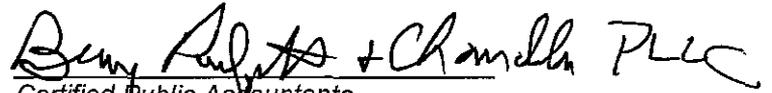
### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Oak Island, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules, are presented for purposed of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, and other schedules, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2014 on our consideration of Town of Oak Island's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Oak Island's internal control over financial reporting and compliance.

  
Certified Public Accountants

Southport, North Carolina  
June 25, 2014

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



# The Town of Oak Island NORTH CAROLINA

## 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, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

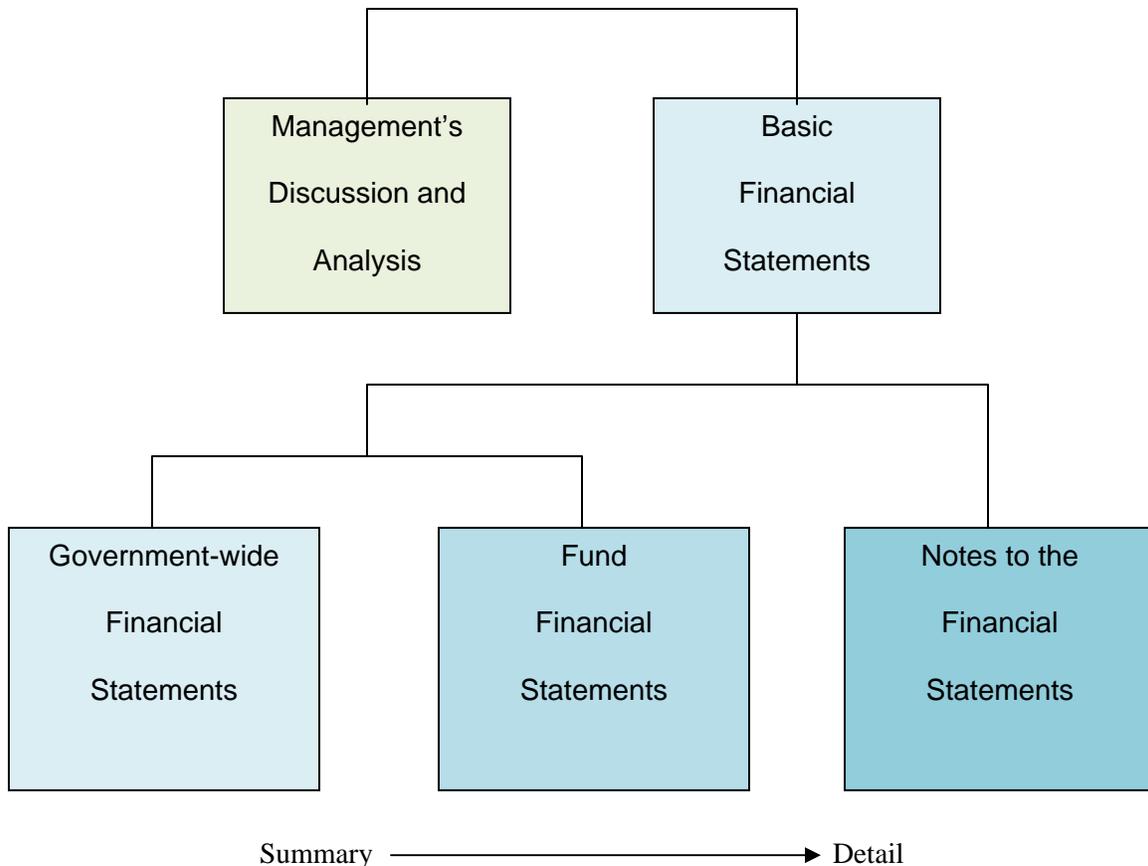
- The assets and deferred outflows of resources of the Town of Oak Island exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$74,591,143 (*net position*).
- The government's total net position increased by \$1,427,081 during the period, primarily due to increases in the governmental activities net position. This, coupled with a prior period restatement, reduced the beginning net position of Business-type activities and likewise the total net position by \$1,055,409. This restatement occurred due to changes in accounting principles associated with implementation of the GASB pronouncements related to deferred outflows. (These bond issuance costs that would previously have been amortized over the life of the debt are now expensed in the period incurred due to these GASB changes.)
- As of the close of the current fiscal year, the Town of Oak Island's governmental funds reported combined ending fund balances of \$11,554,430 with a net change of \$2,020,910 in fund balance. Approximately 55.7 percent of this total amount, or \$6,435,630, is non spendable or restricted. An additional \$810,871 is considered committed by the Town.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,307,979, or 41.5 percent of total general fund expenditures for the fiscal year.
- The Town of Oak Island's total debt decreased by \$4,561,387 (3.84%) during the current fiscal year.
- The Standard and Poor's underlying rating (SPUR) for the Town of Oak Island's Enterprise System was increased by from an A- to A with a stable outlook.

### 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 9) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

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

## Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state shared revenues finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and wastewater and solid waste services offered by the Town of Oak Island as well as the South Harbour golf course activities. 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 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 non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of 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* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements. The Town of 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 Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary Funds** – The Town of Oak Island uses only 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. Town of Oak Island uses enterprise funds to account for its water and 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 Position and the Statement of Activities. The water and wastewater funds are presented as major funds for the Town, while the solid waste and golf course funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for these non-major funds is provided in the form of combining statements elsewhere within this report.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Town of Oak Island has one fiduciary fund, an agency fund, which is used for funds collected by the Town for fines and forfeitures that are 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 includes certain required supplementary information concerning the Town of Oak Island’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on Exhibit A-1 of this report.

**Interdependence with Other Entities:** The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

## Government-Wide Financial Analysis

**TOWN OF OAK ISLAND NET POSITION**  
**FIGURE 2**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 13,456,403	\$ 10,838,432	\$ 31,807,476	\$ 33,922,215	\$ 45,263,879	\$ 44,760,647
Capital assets	31,172,645	32,146,221	116,605,384	119,776,767	147,778,029	151,922,988
<b>Total assets and deferred outflows of resources</b>	<b>44,629,048</b>	<b>42,984,653</b>	<b>148,412,860</b>	<b>153,698,982</b>	<b>193,041,908</b>	<b>196,683,635</b>
Long-term liabilities outstanding	13,613,399	14,957,986	101,436,431	104,556,907	115,049,830	119,514,893
Other liabilities	844,420	1,257,591	1,671,540	1,691,680	2,515,960	2,949,271
Deferred inflows of resources	866,569	-	18,406	-	884,975	-
<b>Total liabilities and deferred inflows of resources</b>	<b>15,324,388</b>	<b>16,215,577</b>	<b>103,126,377</b>	<b>106,248,587</b>	<b>118,450,765</b>	<b>122,464,164</b>
Net position:						
Net Investment in capital assets	18,669,603	18,239,987	21,260,926	22,380,413	39,930,529	40,620,400
Restricted	6,355,004	5,288,746	20,922,210	20,509,542	27,277,214	25,798,288
Unrestricted	4,280,053	3,240,343	3,103,347	4,560,440	7,383,400	7,800,783
<b>Total net position</b>	<b>\$ 29,304,660</b>	<b>\$ 26,769,076</b>	<b>\$ 45,286,483</b>	<b>\$ 47,450,395</b>	<b>\$ 74,591,143</b>	<b>\$ 74,219,471</b>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Due to a change in accounting principles associated with GASB statement implementation, the Town restated its previously reported beginning net position of \$74,219,471 by (1,055,409) to a restated net position of \$73,164,062. The assets and deferred outflows of the Town of Oak Island exceeded liabilities and deferred inflows by \$74,591,143 as of June 30, 2013. The Town's net position increased by \$1,427,081 to an ending net position of \$74,591,143 for the fiscal year ended June 30, 2013. However, the largest portion of this, \$39,930,529, (53.5 percent) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Oak Island uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Oak Island's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of

Oak Island's net position, \$27,277,214, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$7,383,400 is unrestricted.

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

- The actual expenses in Fiscal Year 2013 were reduced from Fiscal Year 2012 levels for most of the Town's functions, including General Governmental functions such as: Public Safety, Transportation, Environmental Protection, Culture and Recreation and Interest on Long-term debt. Business-type activities expenses were also at reduced levels from the prior fiscal year in the Water, Wastewater, Solid Waste and Golf Course operations. Total primary government expenses were 14.8% lower than recorded in the prior fiscal year.
- The Town recorded increases in revenues from prior fiscal year levels in Charges for Services for Water, Wastewater and Solid Waste operations with total business-type activities revenues for charges for services increasing 8.4 percent over the prior year.
- Revenues from Capital grants and contributions in Water and Wastewater increased 16.8 percent above prior period numbers.
- The increased user fees and decreased expenditures in the Town's business-type activities helped to partially close the gap between the total revenues and total expenditures in the enterprise funds.

**TOWN OF OAK ISLAND CHANGES IN NET POSITION**  
**FIGURE 3**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 2,055,657	\$ 2,110,379	\$ 10,580,729	\$ 9,761,791	\$ 12,636,386	\$ 11,872,170
Operating grants and contributions	\$ 411,336	\$ 629,907	\$ 3,872	\$ 49,909	\$ 415,208	\$ 679,816
Capital grants and contributions	\$ 1,441	\$ 16,236	\$ 3,787,571	\$ 3,240,574	\$ 3,789,012	\$ 3,256,810
General revenues:						
Property taxes	\$ 7,016,323	\$ 6,866,837	\$ -	\$ -	\$ 7,016,323	\$ 6,866,837
Local option sales tax	\$ 1,476,163	\$ 1,458,619	\$ -	\$ -	\$ 1,476,163	\$ 1,458,619
Accommodation tax	\$ 1,128,868	\$ 1,068,434	\$ -	\$ -	\$ 1,128,868	\$ 1,068,434
Grants and contributions not restricted to specific programs	\$ 616,694	\$ 613,268		-	\$ 616,694	\$ 613,268
Other	\$ 110,385	\$ 139,575	\$ 18,119	\$ 14,140	\$ 128,504	\$ 153,715
<b>Total revenues</b>	<b>\$ 12,816,867</b>	<b>\$ 12,903,255</b>	<b>\$ 14,390,291</b>	<b>\$ 13,066,414</b>	<b>\$ 27,207,158</b>	<b>\$ 25,969,669</b>
Expenses:						
General government	\$ 3,129,366	\$ 2,736,737	\$ -	\$ -	\$ 3,129,366	\$ 2,736,737
Public safety	\$ 4,458,998	\$ 5,466,506	\$ -	\$ -	\$ 4,458,998	\$ 5,466,506
Transportation	\$ 930,438	\$ 2,596,254	\$ -	\$ -	\$ 930,438	\$ 2,596,254
Environmental protection	\$ 23,831	\$ 226,484	\$ -	\$ -	\$ 23,831	\$ 226,484
Cultural and recreation	\$ 1,108,161	\$ 1,264,990	\$ -	\$ -	\$ 1,108,161	\$ 1,264,990
Interest on long-term debt	\$ 550,489	\$ 600,751	\$ -	\$ -	\$ 550,489	\$ 600,751
Water	\$ -	-	\$ 1,655,847	\$ 2,400,664	\$ 1,655,847	\$ 2,400,664
Wastewater	\$ -	-	\$ 12,800,557	\$ 13,052,025	\$ 12,800,557	\$ 13,052,025
Non-major funds	\$ -	-	\$ 1,122,390	\$ 1,251,256	\$ 1,122,390	\$ 1,251,256
<b>Total expenses</b>	<b>\$ 10,201,283</b>	<b>\$ 12,891,722</b>	<b>\$ 15,578,794</b>	<b>\$ 16,703,945</b>	<b>\$ 25,780,077</b>	<b>\$ 29,595,667</b>
<b>Increase in net position   before transfers</b>	<b>\$ 2,615,584</b>	<b>\$ 11,533</b>	<b>\$ (1,188,503)</b>	<b>\$ (3,637,531)</b>	<b>\$ 1,427,081</b>	<b>\$ (3,625,998)</b>
Transfers	\$ (80,000)	\$ (127,000)	\$ 80,000	\$ 127,000	\$ -	\$ -
Extraordinary item: Environmental remediation costs	\$ -	\$ (33,081)	\$ -	\$ -	\$ -	\$ (33,081)
<b>Increase in net position</b>	<b>\$ 2,535,584</b>	<b>\$ (148,548)</b>	<b>\$ (1,108,503)</b>	<b>\$ (3,510,531)</b>	<b>\$ 1,427,081</b>	<b>\$ (3,659,079)</b>
Net position, July 1 prev. reported	\$ 26,769,076	\$ 26,917,624	\$ 47,450,395	\$ 50,960,926	\$ 74,219,471	\$ 77,878,550
Restatement	\$ -	\$ -	\$ (1,055,409)	\$ -	\$ (1,055,409)	\$ -
Net position - July 1 - restated	\$ 26,769,076	\$ -	\$ 46,394,986	\$ -	\$ 73,164,062	\$ -
Net position, June 30	<b>\$ 29,304,660</b>	<b>\$ 26,769,076</b>	<b>\$ 45,286,483</b>	<b>\$ 47,450,395</b>	<b>\$ 74,591,143</b>	<b>\$ 74,219,471</b>

**Governmental activities.** Governmental activities increased the Town's net position by \$2,535,584, thereby accounting for 177% of the total growth in the net position of the Town of Oak Island. Key elements of this increase are as follows:

- Accommodations tax revenues increased by 5.65 percent over the FY 2012 revenues. The expenditures from these resources were reduced in this fiscal year so that additional reserves can be built to meet the future needs of maintaining and nourishing the Town's beaches.
- The Town adopted a Fiscal Year 2012-2013 budget that maintained the tax rate at 27.5 cents per \$100 valuation. With an increased property valuation, this yielded additional tax revenues over the prior fiscal year.
- After a multi-year pattern of declining revenues, the local option sales tax revenues increased by 1.2 percent.
- The Town has continued to look at methods to hold expenditures down across all functions of the Town by outsourcing functions where possible and by making further personnel reductions.
- The Town recorded a significant deferred inflow of revenue for the settlement of a lawsuit related to the construction of the storm water system in the Police Department and Town Hall parking areas. The Town previously recorded a potential liability for contractor claims of \$250,000 and showed retainage payable of \$76,506 in the Police Department Capital Project Fund. The settlement was signed and filed, but the funds were still outstanding as of the close of the audited fiscal year's books. The settlement included a \$625,000 payment to the Town along with the payment of sub-contractor claims of \$90,000. The net effect of this transaction created a deferred inflow of \$861,506 for the Town since the settlement funds were not actually received until later in 2013.

**Business-type activities.** Business-type activities decreased the Town of Oak Island's net position by \$1,109,503, accounting for -77.8% of the total growth in the government's net position. Key elements of this decrease are as follows:

- The Town's Business-type activity expenditures exceeded the period's revenues by \$1,188,503 prior to interfund transfers.
- The Town's Charges for Services did not produce adequate inflows of revenues to cover the period's expenditures. This is anticipated in the early years of the system and will be supplemented by Sewer Assessment Revenues collected in prior periods.

## 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.

At June 30, 2013, the governmental funds of Town of Oak Island reported a combined fund balance of \$11,554,430 with a net increase in fund balance of \$2,020,910. Included in this change in fund balance are increases in the fund balance of the General Fund and the Town's Other Governmental Funds. The General Fund is the chief operating fund of the Town of Oak Island. At the end of the 2013 fiscal year, the fund balance for the Town of Oak Island's General Fund reached \$6,341,312. Of this, \$1,594,929 was restricted, \$12,972 represented non-spendable inventories and prepaid expenditures and \$425,432 was committed by the Town for capital projects, leaving an unassigned fund balance of \$4,307,979 available for spending at the Town's discretion. The Governing Body of Town of Oak Island has determined that the Town should maintain an available fund balance of no less than 25% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 41.4% of general fund expenditures, while total fund balance represents 62.16% of the same amount.

**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.

Differences between the budgeted and actual expenditures primarily occurred because of the increased conservatism in budgeting the Town's revenues and the reduction of planned expenditures where possible. The Town received more revenues than were budgeted, but generally held expenditures to levels lower than the appropriated amounts. The Town also moved toward recording less interfund transfers where possible.

**Proprietary Funds.** The Town of Oak Island's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Town's proprietary funds at the end of the fiscal year amounted to \$3,103,347. The change in net position for the Water, Wastewater and Other Enterprise Funds was \$651,730, (\$1,708,884) and (\$51,349), respectively. The change in net position in the Water Fund is a result of excess charges for service producing revenues that exceed the expenditures in the fund. The Wastewater Fund's decrease in net position is due to interest payments and depreciation that exceed the revenues in that Fund. This is anticipated to occur in the early years of the system's operations and is offset by Sewer Assessment revenues and Sewer District Fees, which are both considered non-operating sources. Since

the Water and Wastewater operations together form the Town’s Enterprise System, the excess Water Fund revenues help to offset those in the Wastewater Fund for bond covenant coverage test purposes.

### 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, 2013, totals \$147,778,029 (net of accumulated depreciation). These assets include: utility systems, buildings and other structures, land, machinery and equipment, infrastructure, and vehicles (both motor vehicles and heavy motor vehicles).

Major capital asset transactions during the year include the following:

- Purchase of (1) Dodge Charger Police Car (*to replace wrecked vehicle*)
- Purchase of Zoom Camera and Video Equipment for use in identifying internal pipe conditions in Town infrastructure
- Investments in Water Equipment and Water Utility System
- Investment in the Wastewater Equipment and Utility Systems

**TOWN OF OAK ISLAND CAPITAL ASSETS**  
**FIGURE 4**

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$9,529,923	\$9,499,923	\$4,684,602	\$3,282,807	\$14,214,525	\$12,782,730
Buildings	14,601,160	15,031,577	12,583,645	14,215,731	27,184,805	29,247,308
Improvements other than buildings	1,850,013	1,997,227		98,205	1,850,013	2,095,432
Motor vehicles	225,076	323,396	13,260	67,678	238,336	391,074
Heavy motor vehicles	802,158	916,413	177,018	204,200	979,176	1,120,613
Equipment	495,459	489,579	5,431,136	6,043,383	5,926,595	6,532,962
Office equipment	95,106	109,774	0	73,471	95,106	183,245
Computers and electrical equipment	153,223	257,630	15,825	25,007	169,048	282,637
Infrastructure	3,170,527	3,270,702	82,272,804	83,940,477	85,443,331	87,211,179
Construction in progress	250,000	250,000		-	250,000	250,000
Intangible assets			11,427,094	11,825,808	11,427,094	11,825,808
<b>Total</b>	<b>\$31,172,645</b>	<b>\$32,146,221</b>	<b>\$116,605,384</b>	<b>\$119,776,767</b>	<b>\$147,778,029</b>	<b>\$151,922,988</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, 2013, the Town of Oak Island had total bonded debt outstanding of \$88,491,158. All 100% of that amount represents bonds secured solely by specified revenue sources (e.g. revenue bonds). The Town of Oak Island has no outstanding bonded debt backed by the full faith and credit of the Town.

## TOWN OF OAK ISLAND OUTSTANDING DEBT OBLIGATIONS

FIGURE 5

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Installment purchases	\$ 12,097,884	\$ 13,317,800	\$ 549,486	\$ 781,733	\$ 12,647,370	\$ 14,099,533
Capital leases	\$ 798,261	\$ 981,046	\$ -	\$ -	\$ 798,261	\$ 981,046
Revolving loan funds	\$ -	\$ -	\$ 12,008,451	\$ 12,604,726	\$ 12,008,451	\$ 12,604,726
Revenue notes	\$ -	\$ -	\$ 157,973	\$ 315,947	\$ 157,973	\$ 315,947
Revenue bonds	\$ -	\$ -	\$ 88,491,158	\$ 90,663,348	\$ 88,491,158	\$ 90,663,348
<b>Total</b>	<b>\$ 12,896,145</b>	<b>\$ 14,298,846</b>	<b>\$ 101,207,068</b>	<b>\$ 104,365,754</b>	<b>\$ 114,103,213</b>	<b>\$ 118,664,600</b>

### Town of Oak Island's Outstanding Debt

The Town of Oak Island's total long-term debt outstanding decreased by \$4,561,387 (3.84%) during the past fiscal year, primarily due to the Town's efforts to pay its existing debt and refrain from the issuance of any new debt. The Town's debt associated with governmental activities decreased \$1,402,701 or (9.8%) while the debt of the Town's business-type activities decreased by \$3,158,686 (3.0%).

As mentioned in the financial highlights section of this document, the Town of Oak Island's Enterprise System received a bond rating increase from Standard and Poor's Corporation. The "SPUR" rating or Standard and Poor's Underlying Rating, which indicates the credit rating without considering any additional credit enhancements, was increased from the prior rating of A- to an A with a stable outlook. An obligor rated 'A' is defined by Standard and Poor's Corporation as having "strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories." This signifies that based on the current financial circumstances, the Town's Enterprise System, which includes the combined water and wastewater operations of the Town, has the adequate financial capacity to pay the annual debt service obligations for the system's outstanding bonds.

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. This sets the legal debt margin for Town of Oak Island at \$202 million. The Town neither has general obligation bonds authorized nor issued as of June 30, 2013. The Town's governmental activities have outstanding installment purchases and capital lease obligations that total \$12.8 million. This represents 0.51% percent of the total assessed value of taxable property within the jurisdiction.

Since the debts of the Town's business-type activities do not pledge the taxing powers of the Town, the obligations of those funds do not count toward the Town's statutory debt limit. However, for informational purposes, the total of the Town's outstanding long-term debts for all activities is \$114.1 million, which represents 4.52% of the Town's property valuation.

Additional information regarding the Town of Oak Island's long-term debt can be found in the notes section of this report.

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

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

- The Town is starting to experience an increasing number of new building permits issued. This aligns with slight growth in the Town's tax base.
- The Accommodations Tax receipts have continued a multi-year increasing pattern for the Town, indicating that the Tourism market in the local area is growing. This pattern is expected to continue in FY 2014.
- Sales Tax Revenues, which began to rebound for the Town in the 2013 fiscal year, are expected to show modest growth in FY 2014.

### **Budget Highlights for the Fiscal Year Ending June 30, 2014**

**Governmental Activities:** The Town of Oak Island is beginning to see some new economic growth as the tourism and building construction markets make moves toward (and in some cases exceeding) the pre-recession levels. The Town is cautiously optimistic about these improvements and it has planned to hold spending to as conservative levels as is possible while maintaining a level property tax rate. Increases in fees for services are expected to augment the modest increase in the property tax base and slight increases in sales tax revenues. These increases, when netted with an anticipated reduction in grant revenues are expected to produce an overall increase of less than 1% in governmental revenues. The Town has made further reductions to budgeted expenditures for the 2014 fiscal year. The Town plans the funds produced by the additional revenues and reduced expenditures to finance programs currently in place and to make advance payments toward reducing the Town's long-term debts, with the remainder to be kept on hand to build the Town's available fund balance.

**Business-type Activities:** In an effort to reach target revenue levels, the water and sewer rates and Sewer District Fees for utility system users (and potential users) will increase by 11.75%. Based upon consultant recommendations, in FY 2014, the Town plans to begin the first year of a three-year rate increase plan in order to reach the system revenue goals for adequate coverage of operations, debt service payments and resources on hand necessary for bond debt covenants.

The Town continues to look at ways to reduce the operating expenditures while maximizing the system revenues so that the Town's Enterprise System will reach adequate revenue levels to sustain healthy operation of the system when the Town's Sewer Assessments revenues are no longer on hand.

### **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:

Bonnie Schwerd, Finance Director  
Town of Oak Island  
4601 E. Oak Island Drive  
Oak Island, NC 28465  
bschwerd@ci.oak-island.nc.us

One can also call (910)-278-5011 or visit the Town's website at [www.oakislandnc.com](http://www.oakislandnc.com) for more information.

## **Basic Financial Statements**

## **Government-Wide Financial Statements**

**Town of Oak Island**  
**Statement of Net Position**  
**June 30, 2013**

Exhibit 1

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>type Activities</u>	<u>Total</u>	<u>Oak Island</u> <u>ABC Board</u>
<b>ASSETS</b>				
Current assets:				
Cash and equivalents	6,229,580	5,597,517	11,827,097	301,316
Taxes receivable, net	753,889	-	753,889	
Assessments receivable	26,618	-	26,618	
Accrued interest receivable on taxes	123,463		123,463	
Accounts receivable, net	1,346,997	1,407,401	2,754,398	41
Due from other funds	3,500,000	(3,500,000)	-	-
Due from component unit	52,844	-	52,844	
Inventories	9,972	259,917	269,889	162,612
Prepaid items	59,163	-	59,163	12,842
Restricted cash and cash equivalents	1,353,877	13,362,611	14,716,488	142,510
Restricted receivables		12,489,122	12,489,122	
Accrued interest on restricted assets		975,976	975,976	
Total current assets	<u>13,456,403</u>	<u>30,592,544</u>	<u>44,048,947</u>	<u>619,321</u>
Non-current assets:				
Prepaid bond insurance	-	1,214,932	1,214,932	
Capital Assets				
Land, non-depreciable improvements, and construction in progress	9,779,923	4,969,999	14,749,922	101,178
Other Capital Assets, net of depreciation	<u>21,392,722</u>	<u>111,635,385</u>	<u>133,028,107</u>	<u>268,066</u>
Total capital assets	<u>31,172,645</u>	<u>116,605,384</u>	<u>147,778,029</u>	<u>369,244</u>
Total Assets	<u>44,629,048</u>	<u>148,412,860</u>	<u>193,041,908</u>	<u>988,565</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	276,580	365,496	642,076	213,346
Accrued interest payable	483,264	410,838	894,102	
Customer deposits	84,576	111,766	196,342	
Due to primary government				52,844
Payable from restricted assets		783,440	783,440	
Current portion of long-term liabilities	1,592,296	3,322,067	4,914,363	13,567
Long-term liabilities				
Due in more than one year	<u>12,021,103</u>	<u>98,114,364</u>	<u>110,135,467</u>	<u>51,988</u>
Total liabilities	<u>14,457,819</u>	<u>103,107,971</u>	<u>117,565,790</u>	<u>331,745</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	861,506	-	861,506	
Prepaid taxes and assessments	5,063	18,406	23,469	-
Total deferred inflows of resources	<u>866,569</u>	<u>18,406</u>	<u>884,975</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	18,669,603	21,260,926	39,930,529	369,244
Restricted for:				
Stabilization by State Statute	625,608	-	625,608	-
Streets	969,321		969,321	
Public Safety	297,330		297,330	
Tourism	4,402,781		4,402,781	
Cultural and Recreation	59,964		59,964	
Other purposes	-	20,922,210	20,922,210	206,369
Unrestricted	<u>4,280,053</u>	<u>3,103,347</u>	<u>7,383,400</u>	<u>81,207</u>
Total net position	<u>29,304,660</u>	<u>45,286,483</u>	<u>74,591,143</u>	<u>656,820</u>

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

**Town of Oak Island  
Statement of Activities  
For the Year Ended June 30, 2013**

<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	3,129,366	233,974	-	785
Public Safety	4,458,998	1,381,941	82,639	113
Transportation	930,438	-	300,688	-
Environmental Protection	23,831	276,893	-	543
Culture and Recreation	1,108,161	162,849	28,009	-
Interest on Long-term debt	550,489	-	-	-
Total governmental activities	<u>10,201,283</u>	<u>2,055,657</u>	<u>411,336</u>	<u>1,441</u>
Business-type activities:				
Water Operations	1,655,847	3,168,232	-	66,088
Wastewater Operations	12,800,557	6,425,573	-	3,721,483
Solid Waste Operations	914,958	862,931	3,872	-
Golf Course Operations	207,432	123,993	-	-
Total business-type activities	<u>15,578,794</u>	<u>10,580,729</u>	<u>3,872</u>	<u>3,787,571</u>
Total primary government	<u>25,780,077</u>	<u>12,636,386</u>	<u>415,208</u>	<u>3,789,012</u>
<b>Component Unit</b>				
Oak Island ABC Board	2,183,653	2,197,902	-	-
Total component units	<u>2,183,653</u>	<u>2,197,902</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

Transfers

    Total general revenues, special items, and transfers

    Change in net position

Net position - beginning, previously reported

Restatement

Net position - beginning, restated

Net position - ending

<b>Net (Expense) Revenue and Changes in Net Position</b>			
<b>Primary Government</b>			
<b><u>Governmental</u></b>	<b><u>Business-type</u></b>	<b><u>Total</u></b>	<b><u>Component Units</u></b>
<b><u>Activities</u></b>	<b><u>Activities</u></b>		
(2,894,607)		(2,894,607)	
(2,994,305)		(2,994,305)	
(629,750)		(629,750)	
253,605		253,605	
(917,303)		(917,303)	
(550,489)		(550,489)	
<u>(7,732,849)</u>		<u>(7,732,849)</u>	
	1,578,473	1,578,473	
	(2,653,501)	(2,653,501)	
	(48,155)	(48,155)	
	(83,439)	(83,439)	
	<u>(1,206,622)</u>	<u>(1,206,622)</u>	
<u>(7,732,849)</u>	<u>(1,206,622)</u>	<u>(8,939,471)</u>	
			<u>14,249</u>
			<u>14,249</u>
7,016,323	-	7,016,323	-
1,476,163	-	1,476,163	-
1,128,868	-	1,128,868	-
12,059	-	12,059	-
616,694	-	616,694	-
5,225	18,119	23,344	435
93,101	-	93,101	-
<u>10,348,433</u>	<u>18,119</u>	<u>10,366,552</u>	<u>435</u>
<u>(80,000)</u>	<u>80,000</u>	<u>-</u>	<u>-</u>
<u>10,268,433</u>	<u>98,119</u>	<u>10,366,552</u>	<u>435</u>
2,535,584	(1,108,503)	1,427,081	14,684
26,769,076	47,450,395	74,219,471	642,136
-	(1,055,409)	(1,055,409)	
<u>26,769,076</u>	<u>46,394,986</u>	<u>73,164,062</u>	
<u>29,304,660</u>	<u>45,286,483</u>	<u>74,591,143</u>	<u>656,820</u>

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

## **Fund Financial Statements**

Town of Oak Island, North Carolina  
Balance Sheet  
Governmental Funds  
June 30, 2013

Exhibit 3  
Page 1 of 2

	<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>	
<b>ASSETS</b>			
Cash and cash equivalents	4,684,510	1,119,638	5,804,148
Restricted cash	1,394,753	384,556	1,779,309
Receivables, net:			
Taxes	753,889	-	753,889
Assessments	25,213	6,405	31,618
Accounts	1,100,947	229,352	1,330,299
Due from component unit	52,844		52,844
Due from other funds	-	3,500,000	3,500,000
Receivable from other governments	11,698	-	11,698
Inventories	9,972		9,972
Prepays	3,000	56,163	59,163
	<u>8,036,826</u>	<u>5,296,114</u>	<u>13,332,940</u>
Total assets			
<b>LIABILITIES</b>			
Accounts payable	276,495	85	276,580
Customer deposits	84,576		84,576
	<u>361,071</u>	<u>85</u>	<u>361,156</u>
Total liabilities			
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	1,329,380	82,911	1,412,291
Unearned revenue	5,063		5,063
	<u>1,334,443</u>	<u>82,911</u>	<u>1,417,354</u>
Total deferred inflows of resources			
<b>FUND BALANCES</b>			
Non Spendable			
Inventories	9,972		9,972
Prepays	3,000	56,163	59,163
Restricted			
Stabilization by State Statute	625,608		625,608
Streets	969,321		969,321
Public Safety	-	297,330	297,330
Tourism		4,402,781	4,402,781
Cultural and Recreation		71,455	71,455
Committed			
Capital projects	425,432		425,432
Administration		384,556	384,556
Public Safety		833	833
Unassigned	4,307,979	-	4,307,979
	<u>6,341,312</u>	<u>5,213,118</u>	<u>11,554,430</u>
Total fund balances			
Total liabilities, deferred inflows of resources and fund balances	<u>8,036,826</u>	<u>5,296,114</u>	<u>13,332,940</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 Position  
 June 30, 2013

Total fund balance, governmental funds		11,554,430
<p>Amounts reported for governmental activities in the Statement of Net Position 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 Position.</p>		31,172,645
<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 Position.</p>		
Accrued interest receivable from taxes		123,463
<p>Liabilities for earned revenues considered deferred inflows of resources in the fund statements.</p>		550,785
<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 Position</p>		
Installment notes payable	(12,324,371)	
Capitalized lease contracts payable	(571,774)	
Compensated absences payable	(351,076)	
Other postemployment benefits payable	(352,001)	
Net pension obligation	(14,177)	
Accrued interest payable	(483,264)	
		(14,096,663)
Net Position of Governmental Activities		29,304,660

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, 2013

	<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	6,890,355	-	6,890,355
Other taxes and licenses	1,520,579	1,128,868	2,649,447
Unrestricted intergovernmental revenue	616,694	-	616,694
Restricted intergovernmental revenue	1,422,992	16,443	1,439,435
Permits and fees	297,489	-	297,489
Sales and services	623,556	-	623,556
Investment earnings	3,014	3,669	6,683
Miscellaneous	145,365	20,216	165,581
	<u>11,520,044</u>	<u>1,169,196</u>	<u>12,689,240</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,836,131	36,720	2,872,851
Public Safety	3,929,028	5,888	3,934,916
Transportation	802,832	-	802,832
Environmental protection	120,781	-	120,781
Cultural and recreational	695,854	162,149	858,003
Debt Service:			
Principal	1,402,702	-	1,402,702
Interest and other charges	596,245	-	596,245
	<u>10,383,573</u>	<u>204,757</u>	<u>10,588,330</u>
Excess (deficiency) of revenues over expenditures	<u>1,136,471</u>	<u>964,439</u>	<u>2,100,910</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	-	(80,000)	(80,000)
Total other financing sources and uses	-	(80,000)	(80,000)
	<u>1,136,471</u>	<u>884,439</u>	<u>2,020,910</u>
Net change in fund balances	1,136,471	884,439	2,020,910
Fund balances - beginning	5,204,841	4,328,679	9,533,520
Fund balances - ending	<u>6,341,312</u>	<u>5,213,118</u>	<u>11,554,430</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, 2013

Net change in fund balances - total governmental funds: 2,020,910

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 \$185,009 are exceeded by depreciation \$1,188,585 in the current period.

(1,003,576)

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

30,000

Change in unavailable revenue for property tax revenues

125,968

Change in unavailable revenue for assessments revenues

(489)

Change in unavailable revenue for privilege licenses

(27,572)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Debt repayments

1,402,702

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

45,756

Compensated absences

48,476

Net pension obligation

(14,177)

Other postemployment benefits

(92,414)

Change in net position of governmental activities

2,535,584

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, 2013

Exhibit 5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	6,624,880	6,624,880	6,890,355	265,475
Other taxes and licenses	1,438,950	1,438,950	1,520,579	81,629
Unrestricted intergovernmental revenues	584,000	584,000	616,694	32,694
Restricted intergovernmental revenues	1,330,023	1,350,319	1,422,992	72,673
Permits and fees	233,450	233,450	297,489	64,039
Sales and services	594,400	599,646	623,556	23,910
Investment earnings	4,350	4,350	2,721	(1,629)
Miscellaneous	110,600	112,101	145,365	33,264
Total revenues	<u>10,920,653</u>	<u>10,947,696</u>	<u>11,519,751</u>	<u>572,055</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,956,214	3,259,573	2,836,131	423,442
Public safety	4,183,708	4,239,481	3,929,028	310,453
Transportation	1,470,460	1,470,460	802,832	667,628
Environmental protection	260,450	260,450	120,781	139,669
Culture and recreation	781,734	813,858	695,854	118,004
Debt Service:				
Principal	1,406,390	1,402,786	1,402,702	84
Interest and other charges	592,561	596,167	596,245	(78)
Contingency	481,082	137,722	-	137,722
Total Expenditures	<u>12,132,599</u>	<u>12,180,497</u>	<u>10,383,573</u>	<u>1,796,924</u>
Excess (deficiency) of revenues over expenditures	<u>(1,211,946)</u>	<u>(1,232,801)</u>	<u>1,136,178</u>	<u>2,368,979</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Fund balance appropriated	555,000	575,855	-	(575,855)
Transfers in	581,946	581,946	-	(581,946)
Transfers out	75,000	75,000	-	(75,000)
Total other financing sources and uses	<u>1,211,946</u>	<u>1,232,801</u>	<u>-</u>	<u>(1,232,801)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>1,136,178</u>	<u>1,136,178</u>
Fund balance - beginning			<u>4,779,702</u>	
Fund balance - ending			<u>5,915,880</u>	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Interest Income			293	
Fund balance, beginning			<u>425,139</u>	
Fund balance - ending (Exhibit 4)			<u>6,341,312</u>	

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

Town of Oak Island, North Carolina  
Statement of Fund Net Position  
Proprietary Funds  
June 30, 2013

Exhibit 6

	Major Funds		Non-Major Funds	
	Water Fund	Wastewater Fund	Other Enterprise Funds	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	3,795,910	1,379,216	422,391	5,597,517
Accounts Receivable, net	364,175	992,154	50,443	1,406,772
Other receivables	-	-	629	629
Inventories	175,905	75,396	8,616	259,917
Total current assets	<u>4,335,990</u>	<u>2,446,766</u>	<u>482,079</u>	<u>7,264,835</u>
Non-current assets:				
Restricted Assets:				
Cash and cash equivalents	474,381	12,888,230		13,362,611
Assessments receivable, net		12,308,522		12,308,522
Sewer District Fees receivable, net		180,600		180,600
Accrued interest receivable		975,976		975,976
Total restricted assets	<u>474,381</u>	<u>26,353,328</u>	<u>-</u>	<u>26,827,709</u>
Other assets				
Prepaid insurance on bonds	-	1,214,932		1,214,932
Capital Assets:				
Land and construction in progress	135,068	3,433,136	1,401,795	4,969,999
Other capital assets, net of depreciation	3,515,263	107,830,375	289,747	111,635,385
Capital assets	<u>3,650,331</u>	<u>111,263,511</u>	<u>1,691,542</u>	<u>116,605,384</u>
Total non-current assets	<u>4,124,712</u>	<u>138,831,771</u>	<u>1,691,542</u>	<u>144,648,025</u>
Total assets	<u>8,460,702</u>	<u>141,278,537</u>	<u>2,173,621</u>	<u>151,912,860</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	139,859	103,978	70,847	314,684
Salaries payable	18,702	22,798	9,312	50,812
Accrued interest payable	-	410,838	-	410,838
Due to other funds	-	3,500,000	-	3,500,000
Customer deposits	111,766	-		111,766
Payable from restricted assets		783,440		783,440
Compensated absences payable, current	18,158	22,959	14,317	55,434
Installment notes payable, current	141,900	94,748		236,648
Revenue notes payable, current		767,795		767,795
Revenue bonds payable, current	-	2,262,190	-	2,262,190
Total current liabilities	<u>430,385</u>	<u>7,968,746</u>	<u>94,476</u>	<u>8,493,607</u>
Non-current liabilities:				
Other postemployment benefits	63,891	34,068	24,167	122,126
Compensated absences	17,443	20,128	14,232	51,803
Installment notes payable, noncurrent	-	312,838		312,838
Revenue notes payable, noncurrent		11,398,629		11,398,629
Revenue bonds payable, noncurrent	-	86,228,968	-	86,228,968
Total non-current liabilities	<u>81,334</u>	<u>97,994,631</u>	<u>38,399</u>	<u>98,114,364</u>
Total liabilities	<u>511,719</u>	<u>105,963,377</u>	<u>132,875</u>	<u>106,607,971</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned revenue		17,829	577	18,406
Total deferred inflows of resources	<u>-</u>	<u>17,829</u>	<u>577</u>	<u>18,406</u>
<b>NET POSITION</b>				
Net investment in capital assets	3,508,431	16,060,953	1,691,542	21,260,926
Restricted for capital projects	-	20,922,210	-	20,922,210
Unrestricted	4,440,552	(1,685,832)	348,627	3,103,347
Net position of business type activities	<u>7,948,983</u>	<u>35,297,331</u>	<u>2,040,169</u>	<u>45,286,483</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 Position  
Proprietary Funds  
For the Year Ended June 30, 2013

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	2,902,008	6,425,573	968,556	10,296,137
Other operating revenues	<u>266,224</u>	<u>-</u>	<u>18,368</u>	<u>284,592</u>
Total operating revenues	<u>3,168,232</u>	<u>6,425,573</u>	<u>986,924</u>	<u>10,580,729</u>
<b>OPERATING EXPENSES</b>				
Administration	141,874	-	140,103	281,977
Water purchases	745,712	-	-	745,712
Waste collection and treatment	-	4,535,399	865,639	5,401,038
Maintenance	601,252	80,376	57,527	739,155
Depreciation	<u>167,009</u>	<u>3,153,947</u>	<u>59,121</u>	<u>3,380,077</u>
Total Operating Expenses	<u>1,655,847</u>	<u>7,769,722</u>	<u>1,122,390</u>	<u>10,547,959</u>
Operating income (loss)	<u>1,512,385</u>	<u>(1,344,149)</u>	<u>(135,466)</u>	<u>32,770</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	3,257	14,617	245	18,119
Operating grants and contributions	-	-	3,872	3,872
Interest expense	-	(4,977,323)	-	(4,977,323)
Interest on assessments	-	1,330,760	-	1,330,760
Bond issuance costs	<u>-</u>	<u>(53,512)</u>	<u>-</u>	<u>(53,512)</u>
Total non-operating revenue (expenses)	<u>3,257</u>	<u>(3,685,458)</u>	<u>4,117</u>	<u>(3,678,084)</u>
Income (loss) before contributions and transfers	1,515,642	(5,029,607)	(131,349)	(3,645,314)
Capital contributions	66,088	2,390,723	-	2,456,811
Transfers in	-	930,000	80,000	1,010,000
Transfers out	<u>(930,000)</u>	<u>-</u>	<u>-</u>	<u>(930,000)</u>
Change in net position	651,730	(1,708,884)	(51,349)	(1,108,503)
Total net position - beginning, previously repo	7,297,253	38,061,624	2,091,518	47,450,395
Restatement	-	(1,055,409)	-	(1,055,409)
Total net position - beginning, restated	<u>7,297,253</u>	<u>37,006,215</u>	<u>2,091,518</u>	<u>46,394,986</u>
Total net position - ending	<u>7,948,983</u>	<u>35,297,331</u>	<u>2,040,169</u>	<u>45,286,483</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, 2013

Exhibit 8  
Page 1 of 2

	<u>Major Enterprise Funds</u>		<u>Non-Major</u>	<u>Total</u>
	<u>Water</u> <u>Fund</u>	<u>Wastewater</u> <u>Fund</u>	<u>Enterprise</u> <u>Funds</u>	
<b>Cash Flows From Operating Activities</b>				
Cash received from customers	2,921,027	6,399,884	987,110	10,308,021
Cash paid for goods and services	(1,179,276)	(4,143,801)	(803,843)	(6,126,920)
Cash paid to employees	(388,827)	(432,475)	(236,865)	(1,058,167)
Customer deposits received	51,922		-	51,922
Customer deposits returned	(42,158)		-	(42,158)
Other operating revenue	266,224	-	-	266,224
<b>Net cash provided by (used in) operating activities</b>	<b>1,628,912</b>	<b>1,823,608</b>	<b>(53,598)</b>	<b>3,398,922</b>
<b>Cash Flows From Noncapital Financing Activities</b>				
Operating grants received	-		4,316	4,316
Loan from another fund		3,500,000		
Transfers-in	-	930,000	80,000	1,010,000
Transfers-out	(930,000)	-	-	(930,000)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(930,000)</b>	<b>4,430,000</b>	<b>84,316</b>	<b>84,316</b>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Acquisition and construction of capital assets	(35,048)	(170,350)	-	(205,398)
Principal paid on debt	(141,899)	(3,014,597)	-	(3,156,496)
Interest paid on debt		(4,989,615)	-	(4,989,615)
Contributions from customers	66,088	6,670,531		6,736,619
<b>Net cash used in capital and related financing activities</b>	<b>(110,859)</b>	<b>(1,504,031)</b>	<b>-</b>	<b>(1,614,890)</b>
<b>Cash Flows Provided By Investing Activities</b>				
Interest earned	3,257	14,617	245	18,119
<b>Net cash provided by investing activities</b>	<b>3,257</b>	<b>14,617</b>	<b>245</b>	<b>18,119</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>591,310</b>	<b>4,764,194</b>	<b>30,963</b>	<b>1,886,467</b>
<b>Cash and cash equivalents:</b>				
Beginning	3,678,981	9,503,252	391,428	13,573,661
Ending	4,270,291	14,267,446	422,391	15,460,128

(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, 2013

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)	1,512,385	(1,344,149)	(135,466)	32,770
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	167,009	3,153,947	59,121	3,380,077
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	19,019	(25,689)	107	(6,563)
Inventory	(56,566)	(12,745)	(316)	(69,627)
Increase (decrease) in:				
Accounts payable	(31,455)	33,235	9,267	11,047
Customer deposits	9,764	-		9,764
Unearned revenue			79	79
Accrued wages	2,050	2,370	(1,255)	3,165
Accrued vacation pay	(6,418)	4,870	8,317	6,769
Accrued OPEB liability	13,124	11,769	6,548	31,441
<b>Total adjustments</b>	<b>116,527</b>	<b>3,167,757</b>	<b>81,868</b>	<b>3,366,152</b>
<b>Net cash provided by (used in) operating activities</b>	<b>1,628,912</b>	<b>1,823,608</b>	<b>(53,598)</b>	<b>3,398,922</b>

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

Town of Oak Island, North Carolina  
Statement of Fiduciary Net Position  
June 30, 2013

Exhibit 9

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	<u>16,070</u>
LIABILITIES	
Due to other governments	<u>16,070</u>

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

## **Notes to Financial Statements**

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

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

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.

**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.

**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.

**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

**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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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 position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**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, Deferred Outflows/Inflows of Resources, 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.

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

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

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. As a part of the 2009 Series and 2011 Series Enterprise System Bond issuances, the Town established funds that could be drawn from as an assurance of the system's ability to meet the annual debt payments. Those funds are held in special accounts that may be only used for this purpose should system revenues not be adequate to provide for the payments. These accounts are designated Debt Service Reserve accounts. Additionally, there are Interest Accounts where the interest drawn on these reserve accounts is deposited. The earnings in these accounts offsets a portion of the interest expense associated with the related bond's next scheduled debt service payment. Unexpended loan funds in the Town Hall Replacement Project are also categorized as restricted because they can only be used for the purpose for which they were borrowed. Powell Bill funds are also classified as restricted cash because it can be expended only for the 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, 2012.

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 periods 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.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Infrastructure	30
Utility systems I	40
Utility systems II	50
Utility systems III	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

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.

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

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

Deferred outflows/inflows of resources: In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town currently has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Currently the Town has prepaid taxes, property taxes receivable, prepaid assessments, assessments receivable and unavailable revenue from suit settlement that meet this criterion.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the 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.

Net position: Net position in government-wide and proprietary fund financial statements are classified as investment in capital assets; restricted; and unrestricted. Restricted net position 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.

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

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

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 prepaid expenses, 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 vote 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, Deferred Outflows/Inflows of Resources, 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. 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.

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

**B. Violation of Bond Trust Agreement**

Section 706 of the Town's bond trust agreement requires that audited financial statements be filed with the bond Trustee within 180 days of the close of the fiscal year. This filing was not timely for the report due during the current year. Management will review the status of filings to see that future filings are timely.

**C. Single Audit Violation**

Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, require that the results of a single audit be transmitted to the Federal Clearing House. This is accomplished by transmitting a completed Data Collection Form for each year that a single audit is required. The due date of the filing is thirty days after the audit is received or within seven months of the year end, whichever comes first. The single audit filing was not timely for the report due in the current fiscal year. Management will review the requirements for future filings and see that they are timely.

**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, 2013, the Town's deposits had a carrying amount of \$19,612,348 and a bank balance of \$19,940,336. The carrying amount of deposits of the ABC Board was \$442,326 and the bank balance was \$403,250. Deposits in the amount of \$4,083,933 of the Town and \$250,000 of the ABC Board were covered by federal depository insurance. The balances of the deposits \$15,856,403 for the Town and \$153,250 for the ABC Board were collateralized for institutions using the Pooling Method. At June 30, 2013, the Town's petty cash fund totaled \$1,060 and the ABC Board's cash on hand totaled \$1,500.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**Note 3. Deposits and Investments (Continued)**

Investments: At June 30, 2013, the Town had \$6,930,177 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.

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

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

General Fund:	
Taxes receivable	79,048
Storm water fees receivable	<u>1,969</u>
	<u>81,017</u>
Enterprise Funds:	
Water Fund	217,955
Wastewater Fund:	
Wastewater billing	204,108
Sewer district fees	35,111
Sewer assessments	647,816
Solid Waste Fund	<u>89,714</u>
	<u>976,749</u>
	<u>1,194,704</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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Note 5. Capital Assets

Primary government: Capital asset activity for the primary government for the year ended June 30, 2013 was as follows:

	<u>6/30/12</u> <u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>6/30/13</u> <u>Ending</u> <u>Balances</u>
<b>Governmental Activities:</b>					
Capital assets not being depreciated					
Land	9,499,923	30,000			9,529,923
Construction in progress	250,000				250,000
Total capital assets not being depreciated	<u>9,749,923</u>	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>9,779,923</u>
Capital assets being depreciated					
Buildings	17,055,412				17,055,412
Motor vehicles	1,539,509	32,867			1,572,376
Heavy motor vehicles	2,736,642	36,056			2,772,698
Equipment	1,460,876	91,572			1,552,448
Office Equipment	180,444				180,444
Other structures/improvements	2,947,251				2,947,251
Computers/electrical equipment	964,308				964,308
Infrastructure	3,728,410	24,514			3,752,924
Total capital assets being depreciated	<u>30,612,852</u>	<u>185,009</u>	<u>-</u>	<u>-</u>	<u>30,797,861</u>
Less accumulated depreciation for:					
Buildings	2,023,835	430,417			2,454,252
Motor vehicles	1,216,113	131,187			1,347,300
Heavy motor vehicles	1,820,229	150,311			1,970,540
Equipment	971,297	85,692			1,056,989
Office Equipment	70,670	16,710		(2,042)	85,338
Other structures/improvements	950,024	154,038		(6,824)	1,097,238
Computers/electrical equipment	706,678	95,541		8,866	811,085
Infrastructure	457,708	124,689			582,397
Total accumulated depreciation	<u>8,216,554</u>	<u>1,188,585</u>	<u>-</u>	<u>-</u>	<u>9,405,139</u>
Total capital assets being depreciated, net	<u>22,396,298</u>	<u>(1,003,576)</u>	<u>-</u>	<u>-</u>	<u>21,392,722</u>
Governmental activity capital assets, net	<u>32,146,221</u>	<u>(973,576)</u>	<u>-</u>	<u>-</u>	<u>31,172,645</u>

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

General Government	214,095
Public Safety	580,880
Transportation	141,264
Environmental protection	10,918
Cultural and recreational	241,428
Total depreciation expense	<u>1,188,585</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 5. Capital Assets (continued)

	6/30/12 Beginning Balances	Increases	Decreases	Transfers	6/30/13 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	7,580			134,596
Motor vehicles	306,705				306,705
Equipment	323,244				323,244
Computer and electric equipment	93,727				93,727
Utility systems I	2,028,136				2,028,136
Utility systems III	4,550,170	27,468			4,577,638
Total capital assets being depreciated	<u>7,428,998</u>	<u>35,048</u>	-	-	<u>7,464,046</u>
Less accumulated depreciation for:					
Buildings	67,579	1,839			69,418
Motor vehicles	281,746	12,479			294,225
Equipment	227,631	22,236			249,867
Computer and electric equipment	68,720	9,182			77,902
Utility systems I	1,001,026	44,495			1,045,521
Utility systems II	2,135,072	76,778			2,211,850
Total accumulated depreciation	<u>3,781,774</u>	<u>167,009</u>	-	-	<u>3,948,783</u>
Total capital assets being depreciated, net	<u>3,647,224</u>	<u>(131,961)</u>	-	-	<u>3,515,263</u>
Water fund capital assets, net	<u>3,782,292</u>	<u>(131,961)</u>	-	-	<u>3,650,331</u>
Wastewater Fund					
Capital assets not being depreciated					
Land	3,147,739				3,147,739
Future Treatment rights	285,397				285,397
Construction in progress	-				-
Total capital assets not being depreciated	<u>3,433,136</u>	-	-	-	<u>3,433,136</u>
Capital assets being depreciated:					
Buildings	13,266,014				13,266,014
Motor vehicles	110,070				110,070
Heavy vehicles	180,711				180,711
Equipment	7,299,975	57,868			7,357,843
Utility systems I	27,067				27,067
Utility systems II	84,333,615	115,778			84,449,393
Intangible assets	11,961,437				11,961,437
Total capital assets being depreciated	<u>117,178,889</u>	<u>173,646</u>	-	-	<u>117,352,535</u>
Less accumulated depreciation for:					
Buildings	504,168	331,650			835,818
Motor vehicles	96,885	12,404			109,289
Heavy vehicles	173,181	7,530			180,711
Equipment	1,310,540	714,003			2,024,543
Utility systems I	8,995	677			9,672
Utility systems II	3,853,418	1,688,969			5,542,387
Intangible assets	421,026	398,714			819,740
Total accumulated depreciation	<u>6,368,213</u>	<u>3,153,947</u>	-	-	<u>9,522,160</u>
Total capital assets being depreciated, net	<u>110,810,676</u>	<u>(2,980,301)</u>	-	-	<u>107,830,375</u>
Wastewater fund capital assets, net	<u>114,243,812</u>	<u>(2,980,301)</u>	-	-	<u>111,263,511</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

Note 5. Capital Assets (continued)

	6/30/12 Beginning Balances	Increases	Decreases	Transfers	6/30/13 Ending Balances
Solid Waste Fund					
Capital assets being depreciated					
Buildings	5,304				5,304
Motor vehicles	82,884			(29,535)	53,349
Heavy vehicles	688,417			29,535	717,952
Total capital assets being depreciated	<u>776,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>776,605</u>
Less accumulated depreciation for:					
Buildings	1,603	132			1,735
Motor vehicles	53,350				53,350
Heavy vehicles	491,747	49,187			540,934
Total accumulated depreciation	<u>546,700</u>	<u>49,319</u>	<u>-</u>		<u>596,019</u>
Total capital assets being depreciated, net	<u>229,905</u>	<u>(49,319)</u>			<u>180,586</u>
Solid Waste fund capital assets, net	<u>229,905</u>	<u>(49,319)</u>	<u>-</u>	<u>-</u>	<u>180,586</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	11,048	2,455			13,503
Equipment	41,665	7,347			49,012
Total accumulated depreciation	<u>52,713</u>	<u>9,802</u>	<u>-</u>	<u>-</u>	<u>62,515</u>
Total capital assets being depreciated, net	<u>118,963</u>	<u>(9,802)</u>	<u>-</u>	<u>-</u>	<u>109,161</u>
SHGC fund capital assets, net	<u>1,520,758</u>	<u>(9,802)</u>	<u>-</u>	<u>-</u>	<u>1,510,956</u>
Business-type activities capital assets, net					
	<u>119,776,767</u>	<u>(3,171,383)</u>	<u>-</u>	<u>-</u>	<u>116,605,384</u>

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

Water Fund	167,009
Wastewater Fund	3,153,947
Solid Waste Fund	49,319
South Harbour Golf Course Fund	9,802
Total depreciation expense	<u>3,380,077</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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

At June 30, 2013 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
Wastewater Capital Project	<u>778,892</u>
	<u><u>778,892</u></u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2013 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
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	22,395	16,137	98,628
Paving	<u>15,000</u>	—	—	<u>15,000</u>
Total capital assets being depreciated	<u>437,893</u>	<u>22,395</u>	<u>16,137</u>	<u>444,151</u>
Less accumulated depreciation for:				
Buildings	91,579	8,263		99,842
Furniture and equipment	74,656	5,641	16,137	64,160
Paving	<u>11,083</u>	<u>1,000</u>	—	<u>12,083</u>
Total accumulated depreciation	<u>163,508</u>	<u>14,904</u>	<u>16,137</u>	<u>176,085</u>
Total capital assets being depreciated, net	<u>274,385</u>			<u>268,066</u>
ABC Board capital assets, net	<u>375,563</u>			<u>369,244</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 6.74% and 6.77%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.74% 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, 2013, 2012 and 2011 were \$340,961, \$406,414, and \$390,440, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2013, 2012 and 2011 were \$12,968, \$10,918 and \$9,594, 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, 2012, 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, 2012 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	51,240
Interest on net pension obligation	(443)
Adjustment to annual required contribution	<u>552</u>
Annual pension cost	51,349
Contributions made	<u>37,172</u>
Increase (decrease) in net pension obligation	14,177
Net pension obligation beginning of year	<u>0</u>
Net pension obligation end of year	<u>14,177</u>

Year Ended	<u>3 Year Trend Information</u>		
	Annual Pension Cost APC	Percentage of APC Contributed	Net Pension Obligation
<u>June 30</u>			
2011	45,898	100.00%	0
2012	47,089	100.00%	0
2013	51,349	55.13%	14,177

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

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

As of December 31, 2012, 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 \$364,518. The covered payroll (annual payroll of active employees covered by the plan) was \$1,067,720 and the ratio of the UAAL to the covered payroll was 34.14 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 match up to two percent of the contributions made by employees not engaged in law enforcement to the Supplemental Retirement Income Plan. Total contributions for the year ended June 30, 2013 were \$226,553, which consisted of \$98,734 from the Town and \$127,819 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, 2012, the date of the latest actuarial valuation:

Law enforcement officers	25
General Employees	104
Retirees	<u>9</u>
Total	<u>138</u>

Town of Oak Island, North Carolina  
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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 3.21% of annual covered payroll. For the current year, the Town contributed \$61,837 or 1.88% of annual covered payroll. The Town obtains healthcare coverage through private insurers.

Three retired employees contributed a portion of the cost of their insurance totaling \$3,094. 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	185,066
Interest on net OPEB obligation	14,011
Adjustment to annual required contribution	<u>(13,385)</u>
Annual OPEB cost	185,692
Contributions made	<u>(61,837)</u>
Increase (decrease) in net OPEB obligation	123,855
Net OPEB obligation, beginning of year	<u>350,272</u>
Net OPEB obligation, end of year	<u>474,127</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, 2013 were as follows:

For Year Ended June 30	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	181,482	31.6%	220,275
2012	195,989	33.7%	350,272
2013	185,692	33.3%	474,127

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

Funding Status and Funding Progress. As of December 31, 2012, 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 \$1,599,866. The covered payroll (annual payroll of active employees covered by the plan) was \$5,191,047, and the ratio of the UAAL to the covered payroll was 30.8 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, 2012 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 8.50 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, 2012, 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, 2013, due to a surplus, the plan administrators determined that no payment would be required by the Town. 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  
Notes to Financial Statements

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**Note 8. Deferred Inflows of Resources**

The balance in deferred inflows of resources at year-end is comprised of the following:

	<u>Funds Statements</u>		<u>Government Wide</u>	
	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
General Fund:				
Prepaid taxes		5,063		5,063
Taxes receivable	753,889			
Privilege licenses receivable	15,278			
Assessments receivable	25,213			
Suit settlement	<u>535,000</u>	<u>-</u>	<u>785,000</u>	<u>-</u>
	<u>1,329,380</u>	<u>5,063</u>	<u>785,000</u>	<u>5,063</u>
Non-major governmental funds:				
Assessments receivable	6,405			
Suit settlement	<u>76,506</u>	<u>-</u>	<u>76,506</u>	<u>-</u>
	<u>82,911</u>	<u>-</u>	<u>76,506</u>	<u>-</u>
	<u>1,412,291</u>	<u>5,063</u>	<u>861,506</u>	<u>5,063</u>
Proprietary Funds:				
Wastewater Fund				
Prepaid assessments				17,829
Non-major proprietary funds:				
Unredeemed gift cards			<u>577</u>	
			<u>18,406</u>	

The Town settled lawsuits relating to work done during the construction of the new police headquarters. As a result of these suits, the Town will receive a total of \$611,506. These funds were not received within the period to permit recording as revenue in the year ending June 30, 2013. The proceeds from these suits are recorded as unavailable revenue on both the funds statement and statement of position. In prior years, a loss contingency of \$250,000 had been recorded for these suits, resulting in the deferred inflows on the Government-wide statements exceeding the deferred inflows on the funds statements by this amount.

### 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 workers compensation in excess of \$1,000,000 and property coverage in excess of \$500,000. 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 with no 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.

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, 2013, the Town was a defendant to various claims and lawsuits. In the opinion of the Town's management and the Town Attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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**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	2	Annual
6/22/2009	General Fund	2008 Rosenburgh Fire Truck	675,000	84,186	7	Annual
8/15/2008	General Fund	Town Hall Telephone System	80,000	17,950	1	Annual
9/28/2010	General Fund	Caterpillar Motor Grader	88,000	18,491	2	Annual
10/12/2011	General Fund	2 New Ambulances and Used Fire Truck	318,000	65,105	3	Annual

The following is an analysis of the assets recorded under capital leases at June 30, 2013:

<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	76,351	0
General Fund	Equipment	118,000	33,433	84,567
General Fund	Heavy motor vehicles	<u>1,295,382</u>	<u>561,776</u>	<u>733,606</u>
		<u>1,489,733</u>	<u>671,560</u>	<u>818,173</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2014	219,258
2015	201,275
2016	150,291
2017	84,187
2018	84,187
2019 – 2021	<u>168,673</u>
Total minimum lease payments	907,870
Less: amount representing interest	<u>109,610</u>
Present value of the minimum lease payments	<u>798,260</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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

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.

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, 2013, including \$2,905,010 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>
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	1,219,916	304,481		
2019 – 2023	5,344,971	780,235		
2024 – 2025	<u>653,333</u>	<u>44,982</u>		-
Total	<u>12,097,884</u>	<u>2,858,208</u>	<u>549,486</u>	<u>50,802</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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

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, 2013 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, 2013 the Town had drawn \$6,579,167. The period for withdrawals has expired and there will be no future withdrawals.

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>
2014	609,822	274,058
2015	623,679	260,201
2016	637,853	246,027
2017	652,351	231,529
2018	667,181	216,700
2019-2023	3,570,513	848,890
2024-2027	3,995,646	423,756
Thereafter	<u>1,251,406</u>	<u>39,496</u>
	<u>12,008,451</u>	<u>2,540,657</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>
2014	<u>157,973</u>	<u>5,640</u>
	<u>157,973</u>	<u>5,640</u>

Town of Oak Island, North Carolina  
Notes to Financial Statements

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Note 11. Long-Term Obligations (Continued)

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%. 30,435,428

\$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%. 47,961,213

\$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%. 10,094,517  
88,491,158

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>
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	2,652,190	4,190,606
2019 - 2023	15,170,949	19,036,744
2024 - 2027	19,345,949	14,856,006
Thereafter	<u>41,713,310</u>	<u>10,774,250</u>
	<u>88,491,158</u>	<u>66,621,280</u>

Town of Oak Island, North Carolina  
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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, 2013, is as follows:

Operating and non operating revenues	10,942,439
Sewer district fee	1,968,750
Sewer assessment revenue	<u>2,300,000</u>
Total revenues*	15,211,189
Current expenses**	<u>6,104,613</u>
Income available for debt service	9,106,576
15% of the balance of the revenue fund	<u>490,670</u>
Total	<u><u>9,597,246</u></u>
100% of the long-term debt service requirement for parity indebtedness, subordinated indebtedness, system g.o. indebtedness and system other indebtedness for 2014	8,146,111
Additional 20% of the long-term debt service requirement for parity indebtedness for 2014	<u>1,365,981</u>
Total	<u><u>9,512,092</u></u>
Coverage test 704(a)	1.01
Coverage test 704(b)	1.12

\*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 \$2,300,000 in assessment revenue was included.

\*\*Per rate covenants, this does not include depreciation expense of \$3,320,956.

The Town has pledged future water and wastewater customer revenues, net of specified current expenses, to repay \$88,491,158 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 \$155,112,438. Principal and interest paid for the current year was \$6,838,672.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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

Section 706 (b) of the Bond Order requires that the amount held by the Trustee be reported in the audit report.

At June 30, 2013, US Bank as Trustee for the Town of Oak Island held the following deposits:

Enterprise Systems Bonds, Series 2009 Special Reserve Account	3,853,232
Enterprise Systems Bonds, Series 2011 Special Reserve Account	<u>786,508</u>
Total on deposit with Trustee	<u>4,639,740</u>

At June 30, 2013, the Town of Oak Island had a legal debt margin of \$202,055,185.

Changes in long-term liabilities:

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

<u>Governmental Activities</u>	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Installment Purchase	13,317,800		1,219,916	12,097,884	1,219,916
Capitalized leases	981,046		182,785	798,261	188,786
Compensated absences	399,552	282,557	331,033	351,076	183,594
Other postemployment benefits	259,588	154,250	61,837	352,001	-
Net pension obligation	-	14,177	-	14,177	-
	<u>14,957,986</u>	<u>450,984</u>	<u>1,795,571</u>	<u>13,613,399</u>	<u>1,592,296</u>
 <u>Business-type Activities</u>					
Installment purchases	781,733		232,247	549,486	236,648
State revolving loan	12,604,726		596,275	12,008,451	609,822
Revenue debt	315,947		157,974	157,973	157,973
Revenue bonds	90,663,348		2,172,190	88,491,158	2,262,190
Other postemployment benefits	90,685	31,441		122,126	-
Compensated absences	<u>100,468</u>	<u>79,344</u>	<u>72,575</u>	<u>107,237</u>	<u>55,434</u>
	<u>104,556,907</u>	<u>110,785</u>	<u>3,231,261</u>	<u>101,436,431</u>	<u>3,322,067</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. Inter-fund Balances and Activity**

Balances due/to other funds at June 30, 2013, consist of the following:

Due to the Accommodations Tax Fund from:

Wastewater Capital Project	3,500,000
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This balance was necessary to finance the remaining costs of the Wastewater System. The Town Council approved the loan with the requirement that the Accommodation Tax Fund be repaid over the next ten years. The loan bears interest at the rate that the Town's investment accounts are paying at the payment date. Per GASB requirements, this loan is shown as a receivable in the lending fund and a payable in the receiving fund. The loan is not reported in the fund financial statements as other sources and uses.

Transfers to/from other funds at June 30, 2013, consist of the following:

Transfer from	Wastewater <u>Fund</u>	Non-Major Enterprise <u>Funds</u>	<u>Totals</u>
General Fund			-
Non-Major Governmental Funds		80,000	80,000
Water Fund	<u>930,000</u>	<u>-</u>	<u>930,000</u>
Totals	<u><u>930,000</u></u>	<u><u>80,000</u></u>	<u><u>1,010,000</u></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, Wastewater, and South Harbour Golf Course funds.

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

For the fiscal year ended June 30, 2013, the Town of Oak Island has recognized on-behalf payments for pension contributions made by the state as a revenue and expenditure of \$8,487 for the 7 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.

Town of Oak Island, North Carolina  
Notes to Financial Statements

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

Also, the Town has recognized as a revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$8,539 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, 2013. 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.

**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	6,341,312
Less:	
Inventories	9,972
Prepays	3,000
Stabalization by State Statute	625,608
Streets- Powell Bill	969,321
Capital Projects	425,432
Remaining Fund Balance	4,307,979

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, 2013, the General Fund had encumbrances totaling \$10,397.

**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 lightening 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, 2013, the Town reported \$8,539 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, 2013. 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, 2013. Complete financial information for the Council can be obtained from the Council's administrative offices at 1480 Harbour Drive, Wilmington, NC 28401.

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, 2013, the Town made no contribution 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, 2013. 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, 2013, the Town of Oak Island recorded \$2,901,346 in capacity fees and \$443,280 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, 2013 were evaluated by management on June 25, 2014 to ensure that any subsequent events that met the criteria for recognition and or disclosure in these financial statements have been included. In management's opinion, there are no events that require disclosure in these financial statements.

**Note 19. Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that bond issuance except for insurance costs, which were previously deferred and amortized, must be included in current expenditures. Previously deferred bond issuance costs totaling \$1,055,409 were removed in the current year. As a result, beginning net position decreased from \$38,061,624 to \$37,006,215.

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**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, 2013

Exhibit A-1

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:						
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
2012	-	364,518	364,518	0.00	1,067,720	34.14

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, 2013

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
2013	51,240	55.24

**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, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization method	18 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, 2013

**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	32.6 %
2011	\$ -	\$ 1,851,682	\$ 1,851,682	0.00	% \$ 6,123,242	30.2 %
2012	\$ -	\$ 1,599,866	\$ 1,599,866	0.00	% \$ 5,191,047	30.8 %

Town of Oak Island, North Carolina  
 Required Supplementary Information  
 Other Postemployment Benefits - Schedule of Employer Contributions  
 June 30, 2013

Exhibit A-4

Year Ended June 30,	Annual Required Contribution	Percent Contributed
2011	181,482	31.6
2012	195,989	33.7
2013	185,692	33.3

**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, 2012
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	8.50%-5.00%
Year of Ultimate trend rate	2018
*Includes inflation at	3.00%

## **Supplementary Statements and Schedules**

**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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Ad valorem taxes:			
Current year	6,368,880	6,474,585	105,705
Prior years	125,000	208,221	83,221
Motor vehicle tax	100,000	157,534	57,534
Penalties and interest	31,000	50,015	19,015
<b>Total ad valorem taxes</b>	<b>6,624,880</b>	<b>6,890,355</b>	<b>265,475</b>
Other taxes and licenses			
Local option sales tax:			
1%	530,200	580,013	49,813
1/2%, 40	314,600	314,847	247
1/2%, 42	269,550	296,127	26,577
1/2%, 44	296,700	285,176	(11,524)
Privilege licenses	27,900	39,631	11,731
Animal control	-	4,785	4,785
<b>Total other taxes and licenses</b>	<b>1,438,950</b>	<b>1,520,579</b>	<b>81,629</b>
Unrestricted intergovernmental revenue:			
Beer and wine tax	31,000	27,754	(3,246)
Utility franchise tax	405,000	421,555	16,555
Telephone communication tax	30,000	30,100	100
Video franchise fees	18,000	-	(18,000)
ABC profit distribution	100,000	137,285	37,285
<b>Total unrestricted intergovernmental revenue</b>	<b>584,000</b>	<b>616,694</b>	<b>32,694</b>
Restricted intergovernmental revenue:			
FEMA SAFR grant	-	57,624	57,624
NC control substance tax distribution	296	2,915	2,619
Brunswick County fire district fees	980,000	1,005,365	25,365
Brunswick County rescue contract	36,000	36,000	-
On-behalf of payments - Fire and Rescue	-	17,026	17,026

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
DHS - Marine Fire Equipment and Training Grant	21,023	60	(20,963)
Recreation Grants	20,000	-	(20,000)
<i>State Street Aid</i> allocation	293,000	300,688	7,688
Federal Drug Seizure Law Enforcement	-	3,314	3,314
<b>Total restricted intergovernmental revenue</b>	<b>1,350,319</b>	<b>1,422,992</b>	<b>72,673</b>
Permits and fees:			
Planning board fees	600	300	(300)
Homeowners Recovery Fund	500	1,260	760
Building permits	125,000	188,857	63,857
Other permits and fees	63,850	41,857	(21,993)
Inspection fees	40,000	58,280	18,280
CAMA reimbursement	3,500	6,935	3,435
<b>Total permits and fees</b>	<b>233,450</b>	<b>297,489</b>	<b>64,039</b>
Sales and services:			
Recreation department fees	70,000	106,827	36,827
Salty Dog Park Revenue	9,246	5,646	(3,600)
Stormwater fees, residential	236,000	237,704	1,704
Stormwater fees, commercial	24,000	24,383	383
Rescue Squad fees	55,000	45,421	(9,579)
Sponsorship ads	2,000	2,700	700
Weight room fees	35,000	39,248	4,248
Merchandising	3,000	5,030	2,030
Video programing revenue	163,000	153,897	(9,103)
Commercial plan review fee	-	300	300
Lease, Southern Bell	2,400	2,400	-
<b>Total sales and services</b>	<b>599,646</b>	<b>623,556</b>	<b>23,910</b>
Investment earnings	4,350	2,721	(1,629)
Miscellaneous:			
Underground utility assessments	-	1,288	1,288
Pier lease	72,000	69,002	(2,998)
Beach & Tourism Committee Programs	9,500	-	(9,500)
Sponsorship- Oak Island Fireworks	-	1,100	1,100

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Donations	7,202	1,720	(5,482)
Miscellaneous	4,399	62,834	58,435
Civil citations	12,800	1,785	(11,015)
Turtle program	6,200	7,093	893
Interest on assessments	-	543	543
<b>Total miscellaneous</b>	<b>112,101</b>	<b>145,365</b>	<b>33,264</b>
<b>Total revenue</b>	<b>10,947,696</b>	<b>11,519,751</b>	<b>572,055</b>
Expenditures:			
General government:			
Governing body:			
Salaries	39,000	39,000	
Fringe benefits	2,712	2,298	
Operating expense	499,463	344,096	
Donations:			
Brunswick Family Assistance	2,000	2,000	
Chamber of Commerce	5,000	5,000	
Oak Island Senior Citizens	5,000	5,000	
Communities in Schools	1,000	1,000	
Hope Harbor Home	1,000	1,000	
Family Emergency Teen Shelter	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 Feral Cat Program	2,000	2,000	
<b>Total governing body</b>	<b>563,675</b>	<b>406,894</b>	<b>156,781</b>
Administration:			
Salaries	756,913	708,104	
Fringe benefits	284,649	242,135	
Operating expenditures	858,792	755,172	
<b>Total administration</b>	<b>1,900,354</b>	<b>1,705,411</b>	<b>194,943</b>

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Grounds maintenance:			
Salaries	178,719	165,125	
Fringe benefits	80,480	75,981	
Operating expenditures	58,570	50,667	
	<hr/>	<hr/>	
<b>Total grounds maintenance</b>	<b>317,769</b>	<b>291,773</b>	<b>25,996</b>
	<hr/>	<hr/>	
Facilities management:			
Salaries	65,083	62,292	
Fringe benefits	40,752	30,666	
Operating expenditures	371,940	339,095	
	<hr/>	<hr/>	
<b>Total facilities management</b>	<b>477,775</b>	<b>432,053</b>	<b>45,722</b>
	<hr/>	<hr/>	
<b>Total general government</b>	<b>3,259,573</b>	<b>2,836,131</b>	<b>423,442</b>
	<hr/>	<hr/>	
Public safety:			
Police:			
Salaries	1,190,644	1,123,255	
Fringe benefits	457,122	420,243	
Operating expenditures	178,129	140,193	
Capital outlay	32,870	32,867	
	<hr/>	<hr/>	
<b>Total police</b>	<b>1,858,765</b>	<b>1,716,558</b>	<b>142,207</b>
	<hr/>	<hr/>	
Emergency communications:			
Salaries	34,686	31,219	
Fringe benefits	17,608	15,636	
Operating expenditures	2,075	2,075	
	<hr/>	<hr/>	
<b>Total emergency communications</b>	<b>54,369</b>	<b>48,930</b>	<b>5,439</b>
	<hr/>	<hr/>	
Fire and EMS Department:			
Salaries	949,190	954,056	
Fringe benefits	327,954	300,890	
Operating expenditures	382,500	280,189	
Contracted services - Yaupon Beach VFD	80,000	80,000	
Capital outlay	35,000	36,056	-
	<hr/>	<hr/>	
<b>Total Fire and EMS Department</b>	<b>1,774,644</b>	<b>1,651,191</b>	<b>123,453</b>
	<hr/>	<hr/>	

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Development services:			
Salaries	274,704	271,775	
Fringe benefits	111,400	107,134	
Operating expenditures	46,918	22,515	
<b>Total development services</b>	<b>433,022</b>	<b>401,424</b>	<b>31,598</b>
Animal control:			
Salaries	74,593	74,977	
Fringe benefits	28,023	27,323	
Operating expenditures	16,065	8,625	
<b>Total animal control</b>	<b>118,681</b>	<b>110,925</b>	<b>7,756</b>
<b>Total public safety</b>	<b>4,239,481</b>	<b>3,929,028</b>	<b>310,453</b>
Transportation:			
Administration, public works:			
Salaries	119,360	134,058	
Fringe benefits	47,204	44,837	
Operating expenditures	11,156	7,137	
<b>Total administration, public works</b>	<b>177,720</b>	<b>186,032</b>	<b>(8,312)</b>
Street repair and construction:			
Salaries	270,956	262,810	
Fringe benefits	102,871	89,450	
Operating expenditures	754,280	130,633	
<b>Total street repair and construction</b>	<b>1,128,107</b>	<b>482,893</b>	<b>645,214</b>
Fleet maintenance:			
Salaries	79,517	77,385	
Fringe benefits	35,216	31,191	
Operating expenditures	49,900	25,331	
<b>Total fleet maintenance</b>	<b>164,633</b>	<b>133,907</b>	<b>30,726</b>
<b>Total transportation</b>	<b>1,470,460</b>	<b>802,832</b>	<b>667,628</b>

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Environmental protection:			
Stormwater:			
Operating expenditures	147,370	16,187	
Capital outlay	113,080	104,594	
<b>Total environmental protection</b>	<b>260,450</b>	<b>120,781</b>	<b>139,669</b>
Cultural and recreation:			
Recreation:			
Salaries	380,419	365,414	
Fringe benefits	122,706	105,091	
Operating expenditures	174,170	107,706	
<b>Total recreation</b>	<b>677,295</b>	<b>578,211</b>	<b>99,084</b>
Community Resource Center:			
Salaries	76,764	75,583	
Fringe benefits	20,589	18,957	
Operating expenditures	19,810	8,324	
<b>Total resource center</b>	<b>117,163</b>	<b>102,864</b>	<b>14,299</b>
Smith Park			
Operating expenditures	19,400	14,779	
<b>Total Smith Park</b>	<b>19,400</b>	<b>14,779</b>	<b>4,621</b>
<b>Total cultural and recreation</b>	<b>813,858</b>	<b>695,854</b>	<b>118,004</b>
Debt service			
Principal	1,402,786	1,402,702	84
Interest and fees	596,167	596,245	(78)
<b>Total debt service</b>	<b>1,998,953</b>	<b>1,998,947</b>	<b>6</b>
Contingency	137,722	-	137,722
<b>Total expenditures</b>	<b>12,180,497</b>	<b>10,383,573</b>	<b>1,796,924</b>

## General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenues over (under) expenditures	(1,232,801)	1,136,178	2,368,979
Other financing sources (uses):			
Appropriated fund balance	575,855	-	(575,855)
Operating transfers from other funds:			
Accommodations Tax Fund	399,000	-	(399,000)
Capital Projects	75,000	-	(75,000)
Solid Waste Fund	65,138	-	(65,138)
Water Fund	117,808	-	(117,808)
Total other financing sources (uses)	1,232,801	-	(1,232,801)
Revenues and other financing sources over expenditures and other financing uses	-	1,136,178	1,136,178
Fund balance, beginning		4,779,702	
Fund balance, ending		5,915,880	

Capital Reserve Fund

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

For the Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue:</b>			
Investment earnings	-	293	293
<b>Other financing sources (uses):</b>			
Appropriated fund balance	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-
<b>Revenue and other financing sources over other financing uses</b>	-	293	293
Fund balance, July 1		425,139	
Fund balance, June 30		425,432	

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, 2013

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>			
Cash and cash equivalents	1,042,299	77,339	1,119,638
Restricted cash	-	384,556	384,556
Assessments receivable, net	6,405	-	6,405
Accounts receivable	229,352	-	229,352
Due from other funds	3,500,000	-	3,500,000
Prepays	56,163	-	56,163
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<b>4,834,219</b>	<b>461,895</b>	<b>5,296,114</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES</b>			
Accounts payable	85	-	85
<b>Total liabilities</b>	<b>85</b>	<b>-</b>	<b>85</b>
	<hr/>	<hr/>	<hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Assessments receivable	6,405	-	6,405
Unavailable revenue	-	76,506	76,506
	<hr/>	<hr/>	<hr/>
<b>Total deferred inflows of resources</b>	<b>6,405</b>	<b>76,506</b>	<b>82,911</b>
	<hr/>	<hr/>	<hr/>
<b>FUND BALANCES</b>			
Non Spendable			
Prepays	56,163	-	56,163
Restricted			
Tourism	4,402,781	-	4,402,781
Public Safety	297,330	-	297,330
Cultural and Recreation	71,455	-	71,455
Committed			
Administration	-	384,556	384,556
Public Safety	-	833	833
<b>Total fund balances</b>	<b>4,827,729</b>	<b>385,389</b>	<b>5,213,118</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>4,834,219</b>	<b>461,895</b>	<b>5,296,114</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, 2013

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	1,128,868	-	1,128,868
Restricted intergovernmental	16,443	-	16,443
Investment earnings	3,124	545	3,669
Miscellaneous	20,216	-	20,216
	<u>1,168,651</u>	<u>545</u>	<u>1,169,196</u>
<b>EXPENDITURES</b>			
Current:			
General government	-	36,720	36,720
Public Safety	5,888	-	5,888
Culture and recreation	162,149	-	162,149
	<u>168,037</u>	<u>36,720</u>	<u>204,757</u>
Total Expenditures	<u>168,037</u>	<u>36,720</u>	<u>204,757</u>
Excess (deficiency) of revenues over expenditures	<u>1,000,614</u>	<u>(36,175)</u>	<u>964,439</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(80,000)	-	(80,000)
	<u>(80,000)</u>	<u>-</u>	<u>(80,000)</u>
Total other financing sources and uses	<u>(80,000)</u>	<u>-</u>	<u>(80,000)</u>
Net change in fund balances	920,614	(36,175)	884,439
Fund balances - beginning	3,907,115	421,564	4,328,679
Fund balances - ending	<u>4,827,729</u>	<u>385,389</u>	<u>5,213,118</u>

Town of Oak Island, North Carolina  
 Combining Balance Sheet  
 Other Governmental Special Revenue Funds  
 June 30, 2013

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>				
Cash and cash equivalents	673,514	297,330	71,455	1,042,299
Assessments receivable, net	6,405	-	-	6,405
Accounts receivable	229,352	-	-	229,352
Due from other funds	3,500,000	-	-	3,500,000
Prepays	56,163	-	-	56,163
<b>Total assets</b>	<b>4,465,434</b>	<b>297,330</b>	<b>71,455</b>	<b>4,834,219</b>
 <b>LIABILITIES</b>				
Accounts payable	85	-	-	85
<b>Total liabilities</b>	<b>85</b>	<b>-</b>	<b>-</b>	<b>85</b>
 <b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	6,405	-	-	6,405
<b>Total deferred inflows of resources</b>	<b>6,405</b>	<b>-</b>	<b>-</b>	<b>6,405</b>
 <b>FUND BALANCES</b>				
Non Spendable				
Prepays	56,163			56,163
Restricted				
Tourism	4,402,781	-	-	4,402,781
Public Safety	-	297,330	-	297,330
Cultural and Recreation			71,455	71,455
<b>Total fund balances</b>	<b>4,458,944</b>	<b>297,330</b>	<b>71,455</b>	<b>4,827,729</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>4,465,434</b>	<b>297,330</b>	<b>71,455</b>	<b>4,834,219</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, 2013**

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	1,128,868	-	-	1,128,868
Restricted intergovernmental	2,895	13,548	-	16,443
Investment earnings	2,875	205	44	3,124
Miscellaneous	537	-	19,679	20,216
Total revenues	<u>1,135,175</u>	<u>13,753</u>	<u>19,723</u>	<u>1,168,651</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	-	5,888	-	5,888
Culture and recreation	153,917	-	8,232	162,149
Total Expenditures	<u>153,917</u>	<u>5,888</u>	<u>8,232</u>	<u>168,037</u>
Excess (deficiency) of revenues over expenditures	<u>981,258</u>	<u>7,865</u>	<u>11,491</u>	<u>1,000,614</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(80,000)	-	-	(80,000)
Total other financing sources and uses	<u>(80,000)</u>	<u>-</u>	<u>-</u>	<u>(80,000)</u>
Net change in fund balances	901,258	7,865	11,491	920,614
Fund balances - beginning	<u>3,557,686</u>	<u>289,465</u>	<u>59,964</u>	<u>3,907,115</u>
Fund balances - ending	<u><u>4,458,944</u></u>	<u><u>297,330</u></u>	<u><u>71,455</u></u>	<u><u>4,827,729</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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Other taxes and licenses:			
Accommodations tax receipts	601,000	677,513	76,513
Accommodations tax receipts, 2%	404,000	451,355	47,355
<b>Total other taxes and licenses</b>	<b>1,005,000</b>	<b>1,128,868</b>	<b>123,868</b>
Restricted intergovernmental:			
NCDNER mosquito control revenue	-	2,895	2,895
<b>Total restricted intergovernmental</b>	<b>-</b>	<b>2,895</b>	<b>2,895</b>
Investment earnings:			
Interest earned	2,000	2,875	875
Miscellaneous:			
Sand Project assessments	-	237	237
Miscellaneous revenue	-	300	300
<b>Total miscellaneous</b>	<b>-</b>	<b>537</b>	<b>537</b>
<b>Total revenue</b>	<b>1,007,000</b>	<b>1,135,175</b>	<b>128,175</b>
Expenditures:			
Cultural and recreational:			
Professional services	10,000	-	
Greenhouse expenses	25,000	8,978	
Mosquito control	26,500	7,173	
Beach access expenses	70,000	1,596	
Erosion control expenses	30,000	8,500	
Dune maintenance	15,000	-	
Contracted services	10,000	10,000	
Bulkheading	15,000	-	
Boat ramp maintenance and construction	5,000	-	
Dredging project	56,250	56,250	
Sidewalks, bike paths	10,000	-	
Oak Island pier	65,475	61,420	
Reserve - 2% Accomodations Tax	222,550	-	
<b>Total cultural and recreational</b>	<b>560,775</b>	<b>153,917</b>	<b>406,858</b>
Contingency	16,906	-	16,906

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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Total expenditures	577,681	153,917	423,764
Revenue over expenditures	429,319	981,258	551,939
Other financing sources (uses):			
Appropriated fund balance	3,556,250	-	(3,556,250)
Transfers to:			
General Fund	(342,525)	-	342,525
Solid Waste Fund	(40,000)	-	40,000
Golf Course Fund	(103,044)	(80,000)	23,044
Wastewater Capital Project Fund	(3,500,000)	(3,500,000)	-
Total other financing uses	(429,319)	(3,580,000)	(3,150,681)
Revenue and other financing sources under expenditures and other financing uses	-	(2,598,742)	(2,598,742)

Reconciliation from budgetary basis to modified accrual basis:

Revenue and other financing sources under expenditures and other financing uses (above)	<b>(2,598,742)</b>
Long-term loan to Wastewater Capital Project Fund	<b>3,500,000</b>
Net Change in Fund Balance (Exhibit B-6)	<b>901,258</b>

Special Revenue - Emergency 911 Fund

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

For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Restricted intergovernmental:			
State 911 Fund	15,815	13,548	(2,267)
<b>Total restricted intergovernmental</b>	<b>15,815</b>	<b>13,548</b>	<b>(2,267)</b>
Investment earnings:			
Interest earned	100	205	105
<b>Total revenue</b>	<b>15,915</b>	<b>13,753</b>	<b>(2,162)</b>
Expenditures:			
Public safety:			
911 service	40,240	5,888	
<b>Total public safety</b>	<b>40,240</b>	<b>5,888</b>	<b>34,352</b>
<b>Revenue over expenditures</b>	<b>(24,325)</b>	<b>7,865</b>	<b>32,190</b>
Other financing sources (uses):			
Appropriated fund balance	24,325	-	(24,325)
<b>Total other financing uses</b>	<b>24,325</b>	<b>-</b>	<b>(24,325)</b>
<b>Revenue and other financing sources under expenditures and other financing uses</b>	<b>-</b>	<b>7,865</b>	<b>7,865</b>
Fund balance, July 1		289,465	
Fund balance, June 30		297,330	

Town of Oak Island, North Carolina  
Special Revenue - Beach Preservation Fund

Exhibit B-9

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Revenue:			
Investment earnings	60	44	(16)
Miscellaneous:			
Fund raisers	7,500	12,894	5,394
Donations	1,500	629	(871)
Memberships	4,000	6,156	2,156
<b>Total miscellaneous</b>	<b>13,000</b>	<b>19,679</b>	<b>6,679</b>
<b>Total revenue</b>	<b>13,060</b>	<b>19,723</b>	<b>6,663</b>
Expenditures:			
Cultural and recreational:			
Miscellaneous supplies	1,000	821	
Float and other events	1,000	643	
Beach lobbyist	1,500	1,500	
Fund raiser events	2,500	2,134	
Miscellaneous	1,000	934	
Beach Preservation Newsletter	1,000	604	
Beach Preservation Projects	2,360	348	
Beach Lover's Campaign	2,700	1,248	
<b>Total expenditures</b>	<b>13,060</b>	<b>8,232</b>	<b>4,828</b>
<b>Revenue over (under) expenditures</b>	<b>-</b>	<b>11,491</b>	<b>11,491</b>
<b>Revenues and other financing sources over expenditures</b>	<b>-</b>	<b>11,491</b>	<b>11,491</b>
Fund balances, July 1		59,964	
Fund balances, June 30		71,455	

Town of Oak Island, North Carolina  
Combining Balance Sheet  
Other Governmental Capital Project Funds  
June 30, 2013

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>			
Cash and cash equivalents	77,339	-	77,339
Restricted cash		384,556	384,556
<b>Total assets</b>	<b>77,339</b>	<b>384,556</b>	<b>461,895</b>
<b>LIABILITIES</b>			
Other payables	-	-	-
<b>Total liabilities</b>	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	76,506		76,506
<b>Total deferred inflows of resources</b>	<b>76,506</b>	-	<b>76,506</b>
<b>FUND BALANCES</b>			
Committed			
Administration		384,556	384,556
Public Safety	833		833
<b>Total fund balances</b>	<b>833</b>	<b>384,556</b>	<b>385,389</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>77,339</b>	<b>384,556</b>	<b>461,895</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, 2013

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>53</u>	<u>492</u>	<u>545</u>
Total revenues	<u>53</u>	<u>492</u>	<u>545</u>
<b>EXPENDITURES</b>			
Current:			
General government	<u>-</u>	<u>36,720</u>	<u>36,720</u>
Total Expenditures	<u>-</u>	<u>36,720</u>	<u>36,720</u>
Net change in fund balances	53	(36,228)	(36,175)
Fund balances - beginning	<u>780</u>	<u>420,784</u>	<u>421,564</u>
Fund balances - ending	<u><u>833</u></u>	<u><u>384,556</u></u>	<u><u>385,389</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, 2013

	Project	Prior	Current	Total
	Authorization	Year	Year	to Date
Revenue:				
Interest on investments	207,427	208,205	53	208,258
<b>Total revenue</b>	<b>207,427</b>	<b>208,205</b>	<b>53</b>	<b>208,258</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>(6,032,880)</b>	<b>53</b>	<b>(6,032,827)</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>780</b>	<b>53</b>	<b>833</b>
Fund balance, July 1			<b>780</b>	
Fund balance, June 30			<b>833</b>	

Capital Projects Fund - Town Hall Replacement

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

For the Year Ended June 30, 2013

	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	5,547	492	6,039
<b>Total revenue</b>	<b>29,828</b>	<b>30,547</b>	<b>492</b>	<b>31,039</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	237,163	25,228	262,391
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	2,580,036	-	2,580,036
Site work	53,769	53,769	-	53,769
Furnishings	30,812	30,812	-	30,812
Equipment	382,331	358,573	11,492	370,065
Contingency	50,000	-	-	-
<b>Total expenditures</b>	<b>4,279,508</b>	<b>4,158,468</b>	<b>36,720</b>	<b>4,195,188</b>
<b>Revenue under expenditures</b>	<b>(4,249,680)</b>	<b>(4,127,921)</b>	<b>(36,228)</b>	<b>(4,164,149)</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>420,784</b>	<b>(36,228)</b>	<b>384,556</b>
Fund balance, July 1			420,784	
Fund balance, June 30			384,556	

**Individual Fund Statements and Schedules**  
**Proprietary Funds**

Town of Oak Island, North Carolina  
Water Fund

Exhibit C-1  
Page 1 of 2

Schedule of Revenue, Expenditures and Other Financing Sources (Uses) -  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Operating revenue: Charges for services</b>			
Charges for utilities	2,745,700	2,672,810	(72,890)
Reconnect fees	43,000	85,939	42,939
Late fees	57,000	57,190	190
Water taps	40,000	86,069	46,069
	<b>2,885,700</b>	<b>2,902,008</b>	<b>16,308</b>
Other operating revenue	255,169	266,224	11,055
<b>Total operating revenue</b>	<b>3,140,869</b>	<b>3,168,232</b>	<b>27,363</b>
<b>Non-operating revenue:</b>			
Impact fees	16,000	66,088	50,088
Interest on investments	3,000	3,257	257
<b>Total non-operating revenue</b>	<b>19,000</b>	<b>69,345</b>	<b>50,345</b>
<b>Total revenue</b>	<b>3,159,869</b>	<b>3,237,577</b>	<b>77,708</b>
<b>Expenditures</b>			
<b>Water administration:</b>			
Salaries	68,993	68,565	
Fringe benefits	34,209	29,825	
Operating expenditures	59,775	49,902	
<b>Total water administration</b>	<b>162,977</b>	<b>148,292</b>	<b>14,685</b>
<b>Water maintenance</b>			
Salaries	320,343	322,312	
Fringe benefits	156,358	102,035	
Operating expenditures	372,278	163,781	
Capital outlay	141,900	35,048	
Cost of water	875,000	745,712	
<b>Total water maintenance</b>	<b>1,865,879</b>	<b>1,368,888</b>	<b>496,991</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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Debt payments</b>			
Line relocation NCDOT	141,900	141,899	1
<b>Total expenditures</b>	<b>2,170,756</b>	<b>1,659,079</b>	<b>511,677</b>
<b>Revenue over expenditures</b>	<b>989,113</b>	<b>1,578,498</b>	<b>589,385</b>
<b>Other financing sources (uses):</b>			
<b>Transfers to:</b>			
General Fund	(15,680)	-	15,680
Wastewater Fund	(930,832)	(930,000)	832
Fund Balance Reserve	(42,601)	-	42,601
<b>Total other financing uses</b>	<b>(989,113)</b>	<b>(930,000)</b>	<b>59,113</b>
<b>Revenue and other financing sources over expenditures and other uses</b>	<b>-</b>	<b>648,498</b>	<b>648,498</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)

648,498

Financing proceeds

-

Principal payments

141,899

Book value of assets sold

-

Depreciation

(167,009)

Capital outlay

35,048

Increase in:

Accrued vacation pay

6,418

Other postemployment benefits

(13,124)

**Change in net position**

**651,730**

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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Operating revenue:</b>			
Charges for services:			
In town utility charges	5,991,570	5,994,260	2,690
Caswell Beach utility charges	415,000	404,981	(10,019)
Sewer taps	10,000	26,332	16,332
<b>Total operating revenue</b>	<b>6,416,570</b>	<b>6,425,573</b>	<b>9,003</b>
<b>Non-operating revenue:</b>			
Impact fees	10,000	31,690	21,690
Sewer assessment revenue	2,900,000	4,248,781	1,348,781
Interest on sewer assessments	625,000	752,908	127,908
Interest earned - Revenue Bonds	2,500	10,111	7,611
Interest on investments	6,000	3,825	(2,175)
<b>Total non-operating revenue</b>	<b>3,543,500</b>	<b>5,047,315</b>	<b>1,503,815</b>
<b>Total revenue</b>	<b>9,960,070</b>	<b>11,472,888</b>	<b>1,512,818</b>
<b>Expenditures:</b>			
Waste collection			
Salaries	187,577	188,089	
Fringe benefits	75,678	69,054	
Repairs and maintenance	82,000	58,726	
Other operating expenses	431,030	423,650	
<b>Total waste collection</b>	<b>776,285</b>	<b>739,519</b>	<b>36,766</b>
Waste treatment:			
Salaries	251,501	246,756	
Fringe benefits	97,568	85,674	
County treatment capital charge	2,901,346	2,901,346	
County treatment service fees	567,055	443,280	
Repairs and maintenance	31,600	21,650	
Other operating expenses	230,735	160,911	
<b>Total waste treatment</b>	<b>4,079,805</b>	<b>3,859,617</b>	<b>220,188</b>
Debt service:			
Principal payments	3,018,998	3,014,597	
Interest expense	4,989,614	4,989,615	
<b>Total debt service</b>	<b>8,008,612</b>	<b>8,004,212</b>	<b>4,400</b>
<b>Total expenditures</b>	<b>12,864,702</b>	<b>12,603,348</b>	<b>261,354</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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Revenue over (under) expenditures</b>	(2,904,632)	(1,130,460)	1,774,172
Other financing sources (uses):			
Fund balance appropriated	1,100,000	-	(1,100,000)
Transfers from:			
Water Fund	930,832	930,000	(832)
Sewer District Fund	873,800	1,799,797	925,997
<b>Total other financing sources</b>	2,904,632	2,729,797	(174,835)
<b>Excess of revenues and other financing sources over expenditures and other uses</b>	-	1,599,337	1,599,337

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

Excess of revenues and other financing sources over expenditures and other uses (above)	1,599,337
Payment of debt principal	3,014,597
Amortization of debt issuance costs	(53,512)
Amortization of premium and discount	2,190
Wastewater assessments deferred	(3,858,498)
Accrued interest on assessments	577,852
Depreciation	(3,153,947)
(Increase) decrease in:	
Accrued vacation pay	(4,870)
Accrued OPEB liability	(11,769)
Interest expense accrual	10,102
Sewer District Fund	
Sewer District Fees	1,960,849
Accrued interest on Sewer District Fees	7,901
Interest Income	681
Transfer to Wastewater Fund	(1,799,797)
<b>Change in net position</b>	<u>(1,708,884)</u>

## Wastewater Capital Projects Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
 Budget and Actual (Non-GAAP)  
 For the Year Ended June 30, 2013

	Project Authorization	Prior Years	Current Year	Total to Date
Revenue:				
Restricted intergovernmental:				
NC Rural Center Grant-Phase I	96,849	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	-	400,000
<b>Total restricted intergovernmental</b>	<b>3,483,849</b>	<b>3,299,661</b>	<b>-</b>	<b>3,299,661</b>
Miscellaneous income:				
Prepaid Discount Assessment	5,314,050	5,314,050	-	5,314,050
Miscellaneous Revenue	72,666	72,666	-	72,666
<b>Total miscellaneous</b>	<b>5,386,716</b>	<b>5,386,716</b>	<b>-</b>	<b>5,386,716</b>
Investment earnings	888,863	888,863	-	888,863
<b>Total revenue</b>	<b>9,759,428</b>	<b>9,575,240</b>	<b>-</b>	<b>9,575,240</b>
Expenditures:				
Capital outlay:				
Wastewater System:				
Phase I	61,408,742	61,408,744	-	61,408,744
Phase II	54,018,738	53,017,516	173,646	53,191,162
<b>Total expenditures</b>	<b>115,427,480</b>	<b>114,426,260</b>	<b>173,646</b>	<b>114,599,906</b>
<b>Revenues under expenditures</b>	<b>(105,668,052)</b>	<b>(104,851,020)</b>	<b>(173,646)</b>	<b>(105,024,666)</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, 2013

	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	1,896,133	-	1,896,133
Wastewater Fund	1,273,039	1,273,039	-	1,273,039
Accommodations Tax Fund	3,831,041	331,041	3,500,000	3,831,041
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	7,524,846	7,524,846	-	7,524,846
NC State Revolving Loan Fund-2nd Allocation	6,579,167	6,579,167	-	6,579,167
Loan Proceeds-Land Acquisition	3,710,000	3,710,000	-	3,710,000
Revenue Bond Proceeds-Series 2008A-Ph I	33,601,329	33,601,329	-	33,601,329
Revenue Bond Proceeds-Series 2008B-Ph II	49,006,528	49,006,528	-	49,006,528
Revenue Bond Proceeds-Series 2011-Ph II	10,592,112	10,592,112	-	10,592,112
<b>Total other financing sources</b>	<b>105,668,052</b>	<b>102,168,053</b>	<b>3,500,000</b>	<b>105,668,053</b>
<b>Revenues and other financing sources over (under) expenditures</b>	<b>-</b>	<b>(2,682,967)</b>	<b>3,326,354</b>	<b>643,387</b>

Town of Oak Island, North Carolina  
Combining Statement of Net Position  
Other Enterprise Funds  
June 30, 2013

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	278,297	144,094	422,391
Accounts Receivable, net	50,443	-	50,443
Other receivables	629	-	629
Inventories	-	8,616	8,616
	<u>329,369</u>	<u>152,710</u>	<u>482,079</u>
Non-current assets:			
Capital Assets:			
Land and improvements	-	1,401,795	1,401,795
Buildings	5,304	98,205	103,509
Motor Vehicles	53,349	-	53,349
Heavy Vehicles	717,952	-	717,952
Equipment	-	73,471	73,471
Less Accumulated depreciation	(596,019)	(62,515)	(658,534)
	<u>180,586</u>	<u>1,510,956</u>	<u>1,691,542</u>
Total non-current assets	<u>180,586</u>	<u>1,510,956</u>	<u>1,691,542</u>
Total assets	<u>509,955</u>	<u>1,663,666</u>	<u>2,173,621</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	65,495	5,352	70,847
Salaries payable	4,880	4,432	9,312
Compensated absences	9,004	5,313	14,317
	<u>79,379</u>	<u>15,097</u>	<u>94,476</u>
Total current liabilities	<u>79,379</u>	<u>15,097</u>	<u>94,476</u>
Non-current liabilities:			
Other postemployment benefits	24,167	-	24,167
Compensated absences	8,919	5,313	14,232
	<u>33,086</u>	<u>5,313</u>	<u>38,399</u>
Total non-current liabilities	<u>33,086</u>	<u>5,313</u>	<u>38,399</u>
Total liabilities	<u>112,465</u>	<u>20,410</u>	<u>132,875</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned revenue	-	577	577
Total deferred inflows of resources	<u>-</u>	<u>577</u>	<u>577</u>
<b>NET POSITION</b>			
Net investment in capital assets	180,586	1,510,956	1,691,542
Unrestricted	216,904	131,723	348,627
	<u>397,490</u>	<u>1,642,679</u>	<u>2,040,169</u>
Total net position	<u>397,490</u>	<u>1,642,679</u>	<u>2,040,169</u>

Town of Oak Island, North Carolina  
Combining Statement of Revenues, Expenses and Changes in Fund Net Position  
Other Enterprise Funds  
For the Year Ended June 30, 2013

Exhibit C-5

	Non-Major Enterprise Funds		
	Solid Waste Fund	South Harbour Golf Course Fund	Total
<b>REVENUES</b>			
Charges for services	858,568	109,988	968,556
Miscellaneous	4,363	14,005	18,368
	862,931	123,993	986,924
<b>OPERATING EXPENSES</b>			
Administration	-	140,103	140,103
Waste collection and treatment	865,639	-	865,639
Repairs and maintenance	-	57,527	57,527
Depreciation	49,319	9,802	59,121
	914,958	207,432	1,122,390
Total Operating Expenses	914,958	207,432	1,122,390
Operating income (loss)	(52,027)	(83,439)	(135,466)
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest and investment revenue	182	63	245
Operating grants and contributions	3,872	-	3,872
	4,054	63	4,117
Total non-operating revenue (expenses)	4,054	63	4,117
Income (loss) before contributions and transfers	(47,973)	(83,376)	(131,349)
Transfers in	-	80,000	80,000
Change in net position	(47,973)	(3,376)	(51,349)
Total net position - beginning	445,463	1,646,055	2,091,518
Total net position - ending	397,490	1,642,679	2,040,169

Town of Oak Island, North Carolina  
Combining Statement of Cash Flows  
Other Enterprise Funds  
For the Year Ended June 30, 2013

Exhibit C-6  
Page 1 of 2

	<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	863,038	124,072	987,110
Cash paid for goods and services	(707,562)	(96,281)	(803,843)
Cash paid to employees	(133,869)	(102,996)	(236,865)
<b>Net cash provided by (used in) operating activities</b>	<b>21,607</b>	<b>(75,205)</b>	<b>(53,598)</b>
<b>Cash Flows From Noncapital Financing Activities</b>			
Operating grants received	4,316		4,316
Transfers-in	-	80,000	80,000
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>4,316</b>	<b>80,000</b>	<b>84,316</b>
<b>Cash Flows Provided By Investing Activities</b>			
Interest earned	182	63	245
<b>Net cash provided by investing activities</b>	<b>182</b>	<b>63</b>	<b>245</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>26,105</b>	<b>4,858</b>	<b>30,963</b>
<b>Cash and cash equivalents:</b>			
Beginning	252,192	139,236	391,428
Ending	278,297	144,094	422,391

(Continued)

Town of Oak Island, North Carolina  
Combining Statement of Cash Flows  
Other Enterprise Funds  
For the Year Ended June 30, 2013

	<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)	(52,027)	(83,439)	(135,466)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	49,319	9,802	59,121
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	107	-	107
Inventory		(316)	(316)
Increase (decrease) in:			
Accounts payable	9,940	(673)	9,267
Unearned revenue		79	79
Accrued wages	(914)	(341)	(1,255)
Accrued vacation pay	8,634	(317)	8,317
Accrued OPEB liability	6,548	-	6,548
<b>Total adjustments</b>	<b>73,634</b>	<b>8,234</b>	<b>81,868</b>
<b>Net cash provided by (used in) operating activities</b>	<b>21,607</b>	<b>(75,205)</b>	<b>(53,598)</b>

Town of Oak Island, North Carolina  
Solid Waste Fund

Exhibit C-7  
Page 1 of 2

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
Operating revenue:			
Charges for services:			
Charges for collection	855,000	858,568	3,568
Other operating revenue	-	4,363	4,363
<b>Total operating revenue</b>	<b>855,000</b>	<b>862,931</b>	<b>7,931</b>
Non-operating revenue:			
Solid waste disposal tax	4,800	3,872	(928)
Interest on investments	300	182	(118)
<b>Total non-operating revenue</b>	<b>5,100</b>	<b>4,054</b>	<b>(1,046)</b>
<b>Total revenue</b>	<b>860,100</b>	<b>866,985</b>	<b>6,885</b>
Expenditures:			
Salaries	134,880	132,955	
Fringe benefits	52,060	42,275	
Operating expenditures	239,818	178,142	
Maintenance and repair - vehicles	35,000	28,250	
Recycling program	395,000	425,835	
Yard waste recycling	43,342	43,000	
<b>Total sanitation operation expenditures</b>	<b>900,100</b>	<b>850,457</b>	<b>49,643</b>
<b>Total revenue under expenditures</b>	<b>(40,000)</b>	<b>16,528</b>	<b>56,528</b>
Other financing sources (uses)			
Appropriated fund balance	-	-	-
Transfers in:			
Accommodations tax	40,000	-	(40,000)
<b>Total other financing sources</b>	<b>40,000</b>	<b>-</b>	<b>(40,000)</b>
<b>Revenue and other financing sources over (under) expenditures and other uses</b>	<b>-</b>	<b>16,528</b>	<b>16,528</b>

Town of Oak Island, North Carolina  
Solid Waste Fund

Schedule of Revenue, Expenditures and Other Financing Sources (Uses)  
Budget and Actual (Non-GAAP)  
For the Year Ended June 30, 2013

	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		16,528	
Depreciation		(49,319)	
(Increase) decrease in:			
Accrued vacation pay		(8,634)	
Other postemployment benefits		(6,548)	
		<hr/>	
<b>Change in net position</b>		<b>(47,973)</b>	
		<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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Operating revenue:</b>			
Charges for services:			
Annual Membership	27,000	18,318	(8,682)
Green Fee Play	97,000	91,670	(5,330)
Merchandise Sales	11,000	14,005	3,005
<b>Total operating revenue</b>	<b>135,000</b>	<b>123,993</b>	<b>(11,007)</b>
<b>Non-operating Revenue</b>			
Interest on investments	-	63	63
<b>Total non-operating revenue</b>	<b>-</b>	<b>63</b>	<b>63</b>
<b>Total revenue</b>	<b>135,000</b>	<b>124,056</b>	<b>(10,944)</b>
<b>Expenditures:</b>			
Administration			
Salaries	35,483	34,484	
Fringe benefits	2,750	2,653	
Operating expenditures	33,450	20,390	
<b>Total administration</b>	<b>71,683</b>	<b>57,527</b>	<b>14,156</b>
Maintenance			
Salaries	73,569	68,171	
Fringe benefits	26,562	23,263	
Operating expenditures	66,230	48,986	
<b>Total maintenance</b>	<b>166,361</b>	<b>140,420</b>	<b>25,941</b>
<b>Total expenditures</b>	<b>238,044</b>	<b>197,947</b>	<b>40,097</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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Total revenue under expenditures</b>	<b>(103,044)</b>	<b>(73,891)</b>	<b>29,153</b>
Other financing sources:			
Transfers in:			
Accommodations tax	103,044	80,000	(23,044)
<b>Total other financing sources</b>	<b>103,044</b>	<b>80,000</b>	<b>(23,044)</b>
<b>Revenue and other financing sources under expenditures</b>	<b>-</b>	<b>6,109</b>	<b>6,109</b>
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Revenue and other sources under expenditures and other uses		6,109	
Depreciation		(9,802)	
(Increase) decrease in:			
Accrued vacation pay		317	
<b>Change in net position</b>		<b>(3,376)</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, 2013

	Final Budgeted Amounts	Actual	Variance With Final Budget
<b>Non-operating Revenue</b>			
Sewer District Fees - Current	1,863,500	1,917,581	54,081
Sewer District Fees - Prior years	13,600	27,508	13,908
Penalties and interest	-	15,760	15,760
Interest on investments	200	681	481
<b>Total revenue</b>	<b>1,877,300</b>	<b>1,961,530</b>	<b>84,230</b>
<b>Expenditures:</b>			
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total revenue over expenditures</b>	<b>1,877,300</b>	<b>1,961,530</b>	<b>84,230</b>
<b>Other financing uses:</b>			
<b>Transfers out:</b>			
Wastewater Fund	(1,877,300)	(1,799,797)	(77,503)
<b>Revenue and other financing sources over expenditures</b>	<b>-</b>	<b>161,733</b>	<b>161,733</b>

## **Other Schedules**

**Town of Oak Island, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2013**

**Exhibit D-1**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2012</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2013</u>
2012-2013	--	6,971,984	6,629,931	342,053
2011-2012	319,507	--	125,345	194,162
2010-2011	197,803	--	65,599	132,204
2009-2010	93,018	--	20,918	72,100
2008-2009	47,512	--	9,028	38,484
2007-2008	23,361	--	6,347	17,014
2006-2007	11,703	--	900	10,803
2005-2006	12,076	--	2,015	10,061
2004-2005	9,188	--	1,173	8,015
2003-2004	9,670	--	1,629	8,041
2002-2003	8,608	--	8,608	--
	<u>732,446</u>	<u>6,971,984</u>	<u>6,871,493</u>	<u>832,937</u>
	Less: allowance for uncollectible accounts:			
				<u>79,048</u>
				<u>753,889</u>
	<u>Reconciliation with revenues:</u>			
				6,890,355
	Ad valorem taxes - General Fund			
	Reconciling items:			
				(50,015)
				<u>31,153</u>
				<u>6,871,493</u>
	Total collections and credits			

**Town of Oak Island, North Carolina**  
**Analysis of Current Tax Levy**  
**City - Wide Levy**  
**For the Fiscal Year Ended June 30, 2013**

**Exhibit D-2**

	City - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	2,531,461,091	0.275	6,961,518	6,820,565	165,153
Penalties	-		1,871	1,871	
Total	2,531,461,091	0.275	6,963,389	6,822,436	165,153
Discoveries:					
Current year taxes	3,069,016	0.275	8,440	8,440	-
Prior year taxes			266	266	
Abatements	(8,840,298)		(24,311)	(24,311)	
Tot: \$	2,525,689,809				
Net levy			6,971,984	6,806,831	165,153
Uncollected taxes at June 30, 2013			(342,053)	(320,826)	(21,226)
Current year's taxes collected			6,629,931	6,486,005	143,927
Current levy collection percentage			95.09%	95.29%	87.15%

Town of Oak Island, North Carolina  
 Agency Fund  
 Statement of Changes in Assets and Liabilities  
 For the Year Ended June 30, 2013

Exhibit D-3

	Balance July 01, 2012	Additions	Deletions	Balance June 30, 2013
<hr/>				
Fines and Forfeitures				
Assets				
Cash and investments	-	16,070	-	16,070
	<hr/> <hr/>			
Liabilities				
Accounts payable	-	16,070	-	16,070
	<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

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and the  
Member 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, 2013, which collectively comprises the Town of Oak Island's basic financial statements, and have issued our report thereon, dated June 25, 2014. 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 City's internal control over financial reporting.

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 and correct 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompany schedule of findings and questioned cost to be significant deficiencies: 13-1, 13-2 and 13-3.

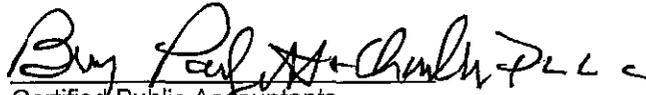
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider 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*. Those items are described in the accompanying schedule of findings and questioned cost: 13-1, 13-2 and 13-3. We noted certain other matters that we reported to management of the Town of Oak Island in a separate letter dated June 25, 2014

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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

Southport, North Carolina  
June 25, 2014

**Town of Oak Island, North Carolina  
Schedule of Findings and Questioned Costs  
For the Fiscal Year Ended June 30, 2013**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

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      Xno

II. Financial Statement Findings

MATERIAL WEAKNESS – None

SIGNIFICANT DEFICIENCIES

**Finding 13-1 Annual Secondary Market Filing**

Criteria: The Town's bond documents require the annual secondary market filing (Rule 15c-12) by January 31 for the prior year end.

Condition: The annual Secondary Market Filing for fiscal year 2012 information that was due by January 31, 2013 was not made in a timely manner.

Effect: Failure to comply with bond documents.

Cause: Lack of adequate experienced staff.

Recommendation: Ensure that adequate trained staff is available for timely reporting.

Views of responsible officials and planned corrective actions: The Town's fiscal year 2012 audited financial information was not available on January 31, 2013. The Town filed this information with the SEC promptly after it was completed and the Town also filed the required disclosures for having submitted this information in an untimely manner. The Town subsequently filed its 2013 disclosures as Interim Information so that required filings could be submitted in a timely manner. The Finance Officer will work with new staff in key departments to assist in compiling the essential information for timely reporting.

**Finding 13-2 Bond Covenant**

Criteria: Section 706 of the Town's bond Trust Agreement requires audited financial statements be filed with the bond Trustee within 180 days of the close of the fiscal year.

Condition: The required audited financial statements were not filed with the bond Trustee within the 180 days of the close of the fiscal year.

Effect: Failure to comply with the bond covenant.

Cause: Lack of adequate experienced staff.

Recommendation: Ensure that adequate trained staff is available for timely reporting.

Views of responsible official and planned corrective action: Due to the change of almost all key management officials at the Town since the issuance of the Town's Enterprise System Bonds, staff was not aware of the covenant to have the Town's audit completed and to the Trustee within 180 days of the close of the fiscal year. Additionally, the staff turnover and software issues that delayed the audit work prevented timely reporting by the Town. Pursuant to Section 907 of the Trust Agreement, the Town has filed an official statement with the Trustee indicating that the Town had instituted and was pursuing curative action with reasonable diligence and therefore it is not deemed a Default.

### **Finding 13-3 Single Audit Data Collection Form**

Criteria: A-133 Single Audit provisions require the results of the single audit be transmitted to the Federal Clearing House within 30 days of the receipt of the single audit or within seven months of the year end.

Condition: For the June 30, 2012 Single Audit, the Data Collection Form was not submitted to the Federal Clearing House in a timely manner.

Effect: Failure to comply with Single Audit requirements could reduce the availability of future grants and loans.

Cause: Lack of adequate experienced staff.

Recommendation: Ensure that adequate trained staff is available for timely reporting.

Views of responsible officials and planned corrective action: The Town's FY 2012 audited financial information was not yet available on January 31, 2013. This information was subsequently filed after it was made available, but it was after the January 31, 2013 deadline. The Town will dedicate the necessary staff resources toward timely reporting efforts.

**Town of Oak Island, North Carolina  
Corrective Action Plan  
For the Year Ended June 30, 2013**

**Exhibit E-2**

I. Financial Statement Findings

**Finding 13-1**

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

Corrective Action: Adequate trained or experienced personnel will be added to insure timely completion of financial reporting including the secondary market filing.

Proposed completion date: September 30, 2014

**Finding 13-2**

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

Corrective Action: Adequate trained or experienced personnel will be added to insure timely completion of financial reporting in order to meet bond covenant requirements.

Proposed completion date: September 30, 2014

**Finding 13-3**

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

Corrective Action: Adequate trained or experienced personnel will be added to insure timely completion of financial reporting including the Single Audit Data Collection Form when required.

Proposed completion date: September 30, 2014

**Town of Oak Island, North Carolina  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2013**

**Exhibit E-3**

**Finding: 12-1**  
Status: Corrected

**Finding: 12-2**  
Status: Corrected

**Finding: 12-3**  
Status: Corrected

**Finding: 12-4**  
Status: Corrected