

TOWN OF NEWPORT NORTH CAROLINA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

MAYOR

Derryl Garner

TOWN COUNCIL MEMBERS

Steve Blizzard

Franklin Blunt

Ken Davis

David Heath

Bena Weires

TOWN MANAGER

Dick Casey

FINANCE OFFICER

Tim White

**TOWN OF NEWPORT, NORTH CAROLINA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Newport, North Carolina, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Newport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Newport, North Carolina, as of June 30, 2010. The respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund and the Fire and Rescue District Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2010, on our consideration of the Town of Newport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Newport, North Carolina's basic financial statements. The individual fund financial statements and other supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
September 15, 2010

Management's Discussion and Analysis

As management of the Town of Newport (Town), we offer readers of the Town of Newport's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2010, with comparisons to the prior year, where appropriate. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

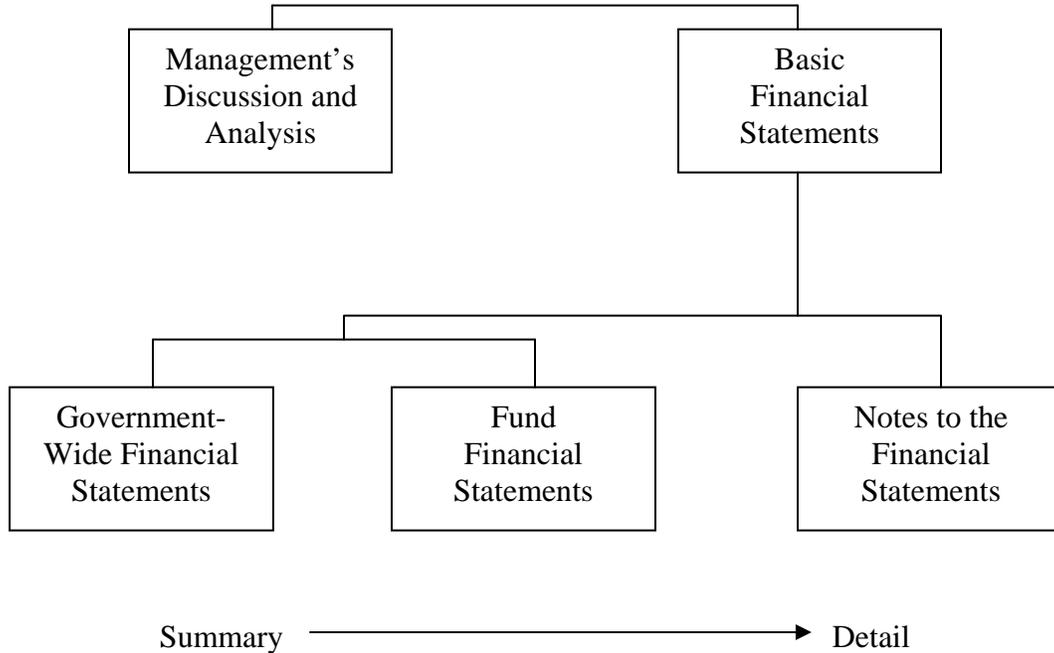
- The Town of Newport's assets exceeded its liabilities at the close of the fiscal year by \$4,618,173.
- The Town's total net assets decreased by \$198,401 with 100 percent of the decrease coming from governmental activities.
- The financial position of the Town's governmental funds decreased \$147,630 in 2010 as evidenced by a decrease in General Fund balance of \$204,500 and an increase in the Fire and Rescue District Fund of \$56,870 at June 30, 2010. The Town's governmental funds reported a combined ending fund balance of \$860,541. Approximately 54 percent or \$461,852 is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$153,155 or 8.49 percent of total General Fund expenditures.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show 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, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Town of Newport's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include General Government, Public Safety, Public Works and Streets, Sanitation, and Culture and Recreation. The business-type activities of the Town of Newport include Water and Sewer.

The government-wide financial statements are on Exhibits A and B of this report.

In accordance with the Governmental Accounting Standards Board criteria for inclusion in the reporting entity, the Town of Newport has no component units that must be included in this report.

Fund Financial Statements

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, like other State and local governments, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

At year-end, the Town maintained two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues and expenditures, for the General Fund and the Fire and Rescue District Fund, the Town's major governmental funds. There are no nonmajor governmental funds.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. A budgetary comparison statement has been provided for the General Fund and the Fire and Rescue District Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits C-F of this report.

Proprietary Funds. The Town of Newport maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund. The Water and Sewer Fund is considered a major fund of the Town.

The basic proprietary fund financial statements can be found on Exhibits G-I of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town does not have any fiduciary funds.

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 after Exhibit I of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on schedules A-1 through C-2 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial condition. The Town's assets exceeded liabilities by \$4,618,173 at the close of the most recent fiscal year. The Town's net assets decreased by \$198,401 for the fiscal year ended June 30, 2010.

A portion of the Town's net assets (66 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, it should be noted that the resources needed to repay that debt must be provided from other sources since the capital assets cannot be used to liquidate these liabilities.

Town of Newport's Net Assets
Figure 2

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
Assets:	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and other assets	\$ 1,048,560	\$ 1,212,488	\$ 1,500,577	\$ 1,462,799	\$ 2,549,137	\$ 2,675,287
Capital assets	<u>1,104,241</u>	<u>1,226,208</u>	<u>5,570,837</u>	<u>5,517,753</u>	<u>6,675,078</u>	<u>6,743,961</u>
Total assets	<u>2,152,801</u>	<u>2,438,696</u>	<u>7,071,414</u>	<u>6,980,552</u>	<u>9,224,215</u>	<u>9,419,248</u>
Liabilities:						
Long-term liabilities						
outstanding	128,815	153,773	3,987,408	3,935,417	4,116,223	4,089,190
Other liabilities	<u>170,734</u>	<u>231,741</u>	<u>319,085</u>	<u>281,743</u>	<u>489,819</u>	<u>513,484</u>
Total liabilities	<u>299,549</u>	<u>385,514</u>	<u>4,306,493</u>	<u>4,217,160</u>	<u>4,606,042</u>	<u>4,602,674</u>
Net Assets:						
Invested in capital assets,						
net of related debt	976,545	1,026,276	2,085,381	3,048,884	3,061,926	4,075,160
Restricted	193,104	162,015	-	-	193,104	162,015
Unrestricted	<u>683,603</u>	<u>864,891</u>	<u>679,540</u>	<u>(285,492)</u>	<u>1,363,143</u>	<u>579,399</u>
Total net assets	<u>\$ 1,853,252</u>	<u>\$ 2,053,182</u>	<u>\$ 2,764,921</u>	<u>\$ 2,763,392</u>	<u>\$ 4,618,173</u>	<u>\$ 4,816,574</u>

An additional portion of the Town's net assets (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$1,363,143) may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Newport's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 635,438	\$ 740,158	\$ 1,444,386	\$ 1,407,874	\$ 2,079,824	\$ 2,148,032
Operating grants and contributions	22,905	150,982	-	-	22,905	150,982
Capital grants and contributions	107,824	139,374	-	-	107,824	139,374
General revenues:						
Property taxes	1,257,683	1,156,745	-	-	1,257,683	1,156,745
Other taxes	510,982	558,633	-	-	510,982	558,633
Other	707	8,403	1,485	5,615	2,192	14,018
Total revenues	<u>2,535,539</u>	<u>2,754,295</u>	<u>1,445,871</u>	<u>1,413,489</u>	<u>3,981,410</u>	<u>4,167,784</u>
Expenses:						
General government	360,999	369,281	-	-	360,999	369,281
Public safety	1,590,491	1,505,877	-	-	1,590,491	1,505,877
Transportation	438,437	480,609	-	-	438,437	480,609
Environmental protection	219,892	173,787	-	-	219,892	173,787
Culture and recreation	117,229	149,390	-	-	117,229	149,390
Interest on long-term debt	8,421	10,627	-	-	8,421	10,627
Water and sewer	-	-	1,444,342	1,314,648	1,444,342	1,314,648
Total expenses	<u>2,735,469</u>	<u>2,689,571</u>	<u>1,444,342</u>	<u>1,314,648</u>	<u>4,179,811</u>	<u>4,004,219</u>
Increase in net assets	<u>(199,930)</u>	<u>64,724</u>	<u>1,529</u>	<u>98,841</u>	<u>(198,401)</u>	<u>163,565</u>
Net assets, July 1	<u>2,053,182</u>	<u>1,988,458</u>	<u>2,763,392</u>	<u>2,664,551</u>	<u>4,816,574</u>	<u>4,653,009</u>
Net assets, June 30	<u>\$ 1,853,252</u>	<u>\$ 2,053,182</u>	<u>\$ 2,764,921</u>	<u>\$ 2,763,392</u>	<u>\$ 4,618,173</u>	<u>\$ 4,816,574</u>

Governmental Activities. Governmental activities decreased the Town's net assets by \$199,930. Key elements of this decrease are as follows:

- Decrease in charges for services revenue of \$104,720 due to the economy.
- Decrease in operating grants and contributions revenue of \$128,077.
- Decrease in other tax revenues of \$47,651 due to the economy.

Business-Type Activities: Business-type activities increased the Town of Newport's net assets by \$1,529. Key elements of this increase are as follows:

- Increase in charges for services
- Major capital expenditures were deferred

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Newport'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 Newport's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Newport. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$153,155 and total fund balance was \$500,146. The unreserved fund balance decreased \$200,010 from 2009, and the total fund balance decreased \$204,500 from 2009. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 8.49 percent of total General Fund expenditures, while total fund balance represents 27.73 percent of that same amount.

At June 30, 2010, the governmental funds of the Town of Newport reported a combined fund balance of \$860,541, a 14.64 percent decrease from last year. Included in this change in fund balance is a decrease in the General Fund of \$204,500 and an increase in the special revenue funds of \$56,870.

General Fund Budgetary Highlights. During the fiscal year, the Town did not revise the total revenues and expenditures from the original budget. 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.

Revenues were less than the budgeted amounts primarily due to the state of the economy. Expenditures were more than budgeted amounts due to year-end accruals for salaries and benefits.

Proprietary Funds. The Town of Newport's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$679,540. The change in net assets was \$1,529. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Newport's business-type activities.

Capital Asset and Debt Administration

Capital Assets. The Town of Newport's investment in capital assets for its governmental and business-type activities as of June 30, 2010 totals \$6,675,078 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. Capital assets did not change significantly during the year for the governmental funds. The Town did purchase two vehicles with a combined cost of \$298,112 to help service the Town's water and sewer operations.

**Town of Newport's Capital Assets
(net of depreciation)**

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 152,637	\$ 152,637	\$ 226,764	\$ 226,764	\$ 379,401	\$ 379,401
Construction in progress	-	-	1,122,960	1,122,869	1,122,960	1,122,869
Infrastructure	33,097	-	-	-	33,097	-
Equipment and fixtures	210,442	254,741	134,144	169,383	344,586	424,124
Vehicles	199,621	286,165	272,774	12,962	472,395	299,127
Building and improvements	508,444	532,665	-	-	508,444	532,665
Plant and distribution systems	-	-	3,814,195	3,985,775	3,814,195	3,985,775
Total	<u>\$ 1,104,241</u>	<u>\$ 1,226,208</u>	<u>\$ 5,570,837</u>	<u>\$ 5,517,753</u>	<u>\$ 6,675,078</u>	<u>\$ 6,743,961</u>

Additional information on the Town's capital assets can be found in note 2.A. of the basic financial statements.

Long-Term Debt. As of June 30, 2010, the Town of Newport had total bonded debt outstanding of \$2,587,000. Of this, \$2,587,000 is debt backed by the full faith and credit of the Town.

General Obligation and Revenue Bonds

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ -	\$ -	\$ 2,587,000	\$ 2,619,000	\$ 2,587,000	\$ 2,619,000
Compensated absences	66,980	51,077	18,503	8,224	85,483	59,301
Notes payable	127,696	199,932	1,596,193	1,465,939	1,723,889	1,665,871
Total	<u>\$ 194,676</u>	<u>\$ 251,009</u>	<u>\$ 4,201,696</u>	<u>\$ 4,093,163</u>	<u>\$ 4,396,372</u>	<u>\$ 4,344,172</u>

Town of Newport's Outstanding Debt

The Town of Newport's total debt decreased by \$52,200 during the past fiscal year.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Newport is approximately \$19,800,000.

Additional information regarding the Town of Newport's long-term debt can be found in note 2.B. of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Continued residential construction with new housing subdivisions.
- Continued growth in water fund from new customers

Budget Highlights for the Fiscal Year Ending June 30, 2011

Governmental Activities. Property tax revenues are expected to increase from the prior year due to continued growth and increase in the ad valorem rate from \$.31 to \$.33.

Based on the current economic situation and decreased revenue projections from the State, budgeted expenditures in the General Fund are flat from the prior year.

Business-Type Activities. The water and sewer revenues in the Town are expected to increase due to continued growth in the customer base and a 7% inflation driven rate increase. General operating expenses are expected to increase during the next budget year.

The Town is continuing with a renovation project of the water and sewer systems.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Town of Newport, 200 Howard Blvd, P.O. Box 1869, Newport, North Carolina 28570.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Assets:			
Cash and cash equivalents	\$ 759,829	\$ 542,757	\$ 1,302,586
Receivables:			
Intergovernmental receivable	153,887	-	153,887
Property taxes receivable	46,807	-	46,807
Accounts receivable	88,037	260,083	348,120
Cash and cash equivalents, restricted	-	697,737	697,737
Capital assets, non-depreciable	152,637	1,349,724	1,502,361
Capital assets, net	<u>951,604</u>	<u>4,221,113</u>	<u>5,172,717</u>
Total assets	<u>2,152,801</u>	<u>7,071,414</u>	<u>9,224,215</u>
Liabilities:			
Accounts payable and accrued liabilities	104,873	28,847	133,720
Customer deposits	-	75,950	75,950
Long-term debt due within one year	65,861	214,288	280,149
Long-term debt due in more than one year	<u>128,815</u>	<u>3,987,408</u>	<u>4,116,223</u>
Total liabilities	<u>299,549</u>	<u>4,306,493</u>	<u>4,606,042</u>
Net Assets:			
Invested in capital assets, net of related debt	976,545	2,085,381	3,061,926
Restricted for streets	193,104	-	193,104
Unrestricted	<u>683,603</u>	<u>679,540</u>	<u>1,363,143</u>
Total net assets	<u>\$ 1,853,252</u>	<u>\$ 2,764,921</u>	<u>\$ 4,618,173</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Primary Government :				
Governmental Activities:				
General government	\$ 360,999	\$ 65,306	\$ -	\$ -
Public safety	1,590,491	315,171	22,680	-
Public works and streets	438,437	488	-	107,824
Sanitation	219,892	254,473	-	-
Cultural and recreation	117,229	-	225	-
Interest on long-term debt	8,421	-	-	-
Total governmental activities	<u>2,735,469</u>	<u>635,438</u>	<u>22,905</u>	<u>107,824</u>
Business-Type Activities:				
Water	<u>1,444,342</u>	<u>1,444,386</u>	-	-
Total primary government	<u>\$ 4,179,811</u>	<u>\$ 2,079,824</u>	<u>\$ 22,905</u>	<u>\$ 107,824</u>

General Revenues:

Property tax
Sales tax
Other taxes
Investment earnings

Total general revenues

Change in net assets

Net Assets:

Beginning of year, July 1

End of year, June 30

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

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (295,693)	\$ -	\$ (295,693)
(1,252,640)	-	(1,252,640)
(330,125)	-	(330,125)
34,581	-	34,581
(117,004)	-	(117,004)
(8,421)	-	(8,421)
(1,969,302)	-	(1,969,302)
-	44	44
(1,969,302)	44	(1,969,258)
1,257,683	-	1,257,683
209,592	-	209,592
301,390	-	301,390
707	1,485	2,192
1,769,372	1,485	1,770,857
(199,930)	1,529	(198,401)
2,053,182	2,763,392	4,816,574
\$ 1,853,252	\$ 2,764,921	\$ 4,618,173

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

TOWN OF NEWPORT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS JUNE 30, 2010

	<u>General</u>	<u>Fire and Rescue District Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 400,337	\$ 359,492	\$ 759,829
Property taxes receivable	46,807	-	46,807
Intergovernmental receivable	153,887	-	153,887
Accounts receivable	36,339	51,698	88,037
Total assets	<u>\$ 637,370</u>	<u>\$ 411,190</u>	<u>\$ 1,048,560</u>
Liabilities:			
Accounts payable and accrued liabilities	\$ 54,078	\$ 50,795	\$ 104,873
Deferred revenue	83,146	-	83,146
Total liabilities	<u>137,224</u>	<u>50,795</u>	<u>188,019</u>
Fund Balances:			
Reserved by State statute	153,887	51,698	205,585
Reserved for highways and streets - Powell Bill	193,104	-	193,104
Unreserved:			
Undesignated, General Fund	153,155	-	153,155
Undesignated, Special Revenue Fund	-	308,697	308,697
Total fund balances	<u>500,146</u>	<u>360,395</u>	<u>860,541</u>
Total liabilities and fund balances	<u>\$ 637,370</u>	<u>\$ 411,190</u>	

Amounts reported for governmental activities in the Statement of Net Assets (Exhibit A) are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 1,104,241

Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. (194,676)

Deferred revenues in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Assets. 83,146

Net assets of governmental activities per Exhibit A \$ 1,853,252

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

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Fire and Rescue District Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 908,837	\$ 336,000	\$ 1,244,837
Unrestricted intergovernmental	445,655	65,327	510,982
Restricted intergovernmental	121,574	8,930	130,504
Licenses and permits	38,848	-	38,848
Sales and services	305,266	264,353	569,619
Investment earnings	585	122	707
Miscellaneous	14,237	12,471	26,708
Total revenues	<u>1,835,002</u>	<u>687,203</u>	<u>2,522,205</u>
Expenditures:			
Current:			
General government	328,325	-	328,325
Public safety	733,457	822,100	1,555,557
Public works and streets	398,414	-	398,414
Sanitation	218,302	-	218,302
Cultural and recreation	88,580	-	88,580
Debt service:			
Principal	30,812	41,424	72,236
Interest	5,794	2,627	8,421
Total expenditures	<u>1,803,684</u>	<u>866,151</u>	<u>2,669,835</u>
Revenues over (under) expenditures	<u>31,318</u>	<u>(178,948)</u>	<u>(147,630)</u>
Other Financing Sources (Uses):			
Transfers in	-	235,818	235,818
Transfers out	(235,818)	-	(235,818)
Total other financing sources (uses)	<u>(235,818)</u>	<u>235,818</u>	<u>-</u>
Net change in fund balances	(204,500)	56,870	(147,630)
Fund Balances:			
Beginning of year, July 1	<u>704,646</u>	<u>303,525</u>	<u>1,008,171</u>
End of year, June 30	<u>\$ 500,146</u>	<u>\$ 360,395</u>	<u>\$ 860,541</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL ACTIVITIES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ (147,630)
<p>Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:</p>	
Property taxes and solid waste fees	13,334
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(15,903)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	41,883
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(163,850)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>72,236</u>
Total changes in net assets of governmental activities per Exhibit B	<u>\$ (199,930)</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

**MAJOR GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 935,278	\$ 935,278	\$ 908,837	\$ (26,441)
Unrestricted intergovernmental	465,000	465,000	445,655	(19,345)
Restricted intergovernmental	116,038	116,038	121,574	5,536
Licenses and permits	64,000	64,000	38,848	(25,152)
Sales and services	307,950	307,950	305,266	(2,684)
Investment earnings	15,000	15,000	585	(14,415)
Miscellaneous	34,000	34,000	14,237	(19,763)
Total revenues	<u>1,937,266</u>	<u>1,937,266</u>	<u>1,835,002</u>	<u>(102,264)</u>
Expenditures:				
Current:				
General government	302,953	315,253	328,325	(13,072)
Public safety	692,034	691,434	733,457	(42,023)
Highways and streets	403,298	391,598	398,414	(6,816)
Sanitation	219,450	219,450	218,302	1,148
Cultural and recreation	90,000	90,000	88,580	1,420
Debt service:				
Principal	30,812	30,812	30,812	-
Interest	7,836	7,836	5,794	2,042
Total expenditures	<u>1,746,383</u>	<u>1,746,383</u>	<u>1,803,684</u>	<u>(57,301)</u>
Revenues over (under) expenditures	<u>190,883</u>	<u>190,883</u>	<u>31,318</u>	<u>(159,565)</u>
Other Financing Sources (Uses):				
Appropriated fund balance	44,935	44,935	-	(44,935)
Transfers in	-	-	-	-
Transfers out	<u>(235,818)</u>	<u>(235,818)</u>	<u>(235,818)</u>	<u>-</u>
Total other financing sources (uses)	<u>(190,883)</u>	<u>(190,883)</u>	<u>(235,818)</u>	<u>(44,935)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>(204,500)</u>	<u>\$ (204,500)</u>
Fund Balances:				
Beginning of year, July 1			<u>704,646</u>	
End of year, June 30			<u>\$ 500,146</u>	

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

Exhibit F

Fire and Rescue District Special Revenue Fund				
Budgeted Amounts		Actual	Variance with Final Budget Over/Under	
Original	Final			
\$ 324,000	\$ 324,000	\$ 336,000	\$	12,000
60,000	60,000	65,327		5,327
22,000	20,500	8,930		(11,570)
-	-	-		-
210,000	210,000	264,353		54,353
2,000	2,000	122		(1,878)
-	20,585	12,471		(8,114)
<u>618,000</u>	<u>637,085</u>	<u>687,203</u>		<u>50,118</u>
-	-	-		-
809,768	828,852	822,100		6,752
-	-	-		-
-	-	-		-
-	-	-		-
41,424	41,424	41,424		-
2,627	2,627	2,627		-
<u>853,818</u>	<u>872,903</u>	<u>866,151</u>		<u>6,752</u>
<u>(235,818)</u>	<u>(235,818)</u>	<u>(178,948)</u>		<u>56,870</u>
-	-	-		-
235,818	235,818	235,818		-
-	-	-		-
<u>235,818</u>	<u>235,818</u>	<u>235,818</u>		<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	56,870	<u>\$</u>	<u>56,870</u>
		<u>303,525</u>		
		<u>\$ 360,395</u>		

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

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 542,757
Accounts receivable, net	260,083
Cash and cash equivalents, restricted	<u>697,737</u>
Total current assets	<u>1,500,577</u>
Non-current assets:	
Land	226,764
Construction in progress	1,122,960
Capital assets, net	<u>4,221,113</u>
Total non-current assets	<u>5,570,837</u>
Total assets	<u>7,071,414</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	28,847
Compensated absences - current portion	14,000
Current portion of long-term debt	200,288
Customer deposits	<u>75,950</u>
Total current liabilities	<u>319,085</u>
Non-current liabilities:	
Compensated absences payable	4,503
Other long-term debt	<u>3,982,905</u>
Total non-current liabilities	<u>3,987,408</u>
Total liabilities	<u>4,306,493</u>
Net Assets:	
Invested in capital assets, net of related debt	2,085,381
Unrestricted	<u>679,540</u>
Total net assets	<u>\$ 2,764,921</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2010

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 1,384,902
Impact fees	24,743
Miscellaneous revenue	34,741
Total operating revenues	<u>1,444,386</u>
Operating Expenses:	
Salaries and benefits	482,243
Supplies, maintenance, and administration	552,472
Depreciation	245,119
Total operating expenses	<u>1,279,834</u>
Operating income (loss)	<u>164,552</u>
Non-Operating Revenues (Expenses):	
Interest income	1,485
Interest expense and fiscal charges	<u>(164,508)</u>
Total non-operating revenues (expenses)	<u>(163,023)</u>
Income (loss) before transfers and capital contributions	<u>1,529</u>
Change in net assets	<u>1,529</u>
Net Assets:	
Beginning of year, July 1	<u>2,763,392</u>
End of year, June 30	<u>\$ 2,764,921</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF CASH FLOWS PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise Fund</u> <u>Water and</u> <u>Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,404,625
Cash paid for goods and services	(536,098)
Cash paid to employees	(463,285)
Net cash provided (used) by operating activities	<u>405,242</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(298,203)
Proceeds from issuance of notes payable	250,000
Principal paid on long-term debt	(151,746)
Interest paid on long-term debt	(164,508)
Net cash provided (used) for capital and related financing activities	<u>(364,457)</u>
Cash Flows from Investing Activities:	
Interest received from investments	<u>1,485</u>
Net increase (decrease) in cash and cash equivalents	42,270
Cash and cash equivalents - beginning of year	<u>1,198,224</u>
Cash and cash equivalents - end of year	<u>\$ 1,240,494</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 164,552
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	245,119
Changes in assets and liabilities:	
Increase (decrease) accounts receivable	(10,471)
Increase (decrease) trade accounts payable and accrued liabilities	35,332
Increase (decrease) customer deposits	(29,290)
Net cash provided (used) by operating activities	<u>\$ 405,242</u>

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

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

1. Summary of Significant Accounting Policies

A. Nature of Operations

The financial statements of the Town of Newport, North Carolina, (the "Town") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. Reporting Entity

The Town is a municipal corporation 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 all legally separate entity for which the Town is financially accountable. The Town has no component units or entities for which the government is considered financially accountable.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (Exhibit A - Statement of Net Assets and Exhibit B - Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements in all material areas. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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 and investment earnings, result from non-exchange transactions or ancillary activities.

Major Funds

The General Fund, Fire and Rescue District Special Revenue Fund, and Water and Sewer Fund are the major funds of the Town for the year ended June 30, 2010. 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, sales tax, State grant, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and recreation. The Fire and Rescue District Special Revenue Fund accounts for fire services provided by the Town to the Town as well as the fire district, which extends beyond the Town limits. The Water and Sewer Fund provides utility services to the citizens of Newport.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The basis of accounting determines when the revenues and expenditures or expenses, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All funds of the Town are accounted for during the year using the modified accrual basis of accounting in accordance with the North Carolina General Statutes. The financial statements are reported at year-end as discussed below.

The government-wide financial statements and the enterprise funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of when the related cash flow took place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Net assets are segregated into (1) investment in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. Operating statements for these funds present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, in its accounting and reporting practices for its proprietary operations.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 90 days of June 30, 2010. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

For modified accrual basis of accounting purposes, ad valorem property taxes are not accrued as a 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 subsequent year. Also, as of January 1, 1993, State law altered procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Carteret County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities' special tax districts in the County. For registered motor vehicles, 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, taxes for vehicles registered from March 2009 through February 2010 apply to the fiscal year ended June 30, 2010. Uncollected taxes which were billed during this period are shown as a receivable on the fund financial statements.

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 grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The effect of interfund activity has been eliminated from the government-wide financial statements, with the exception of payments-in-lieu-of-taxes and other charges between the Town's water and sewer funds and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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. Internally dedicated resources are reported as general revenues; therefore, all taxes are reported as general revenues.

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

E. Basis of Presentation – Fund Accounting

The government uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.

Governmental Funds

General Fund - The General Fund is the general operating fund of the Town.

Special Revenue Funds - Special revenue funds account for specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Fire and Rescue District Fund is the Town's only Special Revenue Fund.

Proprietary Funds

Enterprise Funds - Enterprise funds account for those operations (a) that are financed and operated in a manner similar to private-business enterprises where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodical determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has one Enterprise Fund: Water and Sewer Fund. The Water and Sewer Capital Project Fund is consolidated into the Water and Sewer Fund.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

F. Budgetary Data

Department heads submit budget requests to the Town Manager by April 30. After reviewing requests and making adjustments, a proposed budget is submitted to the Council by June 1. The Town holds public hearings, and the final budget ordinance is adopted prior to July 1.

The annual budget ordinance is adopted at the departmental level. Over-expenditures at the department level are considered to be a violation of State statutes. Annual appropriated budgets are adopted for the General Fund, Fire and Rescue District Special Revenue Fund, and enterprise funds. Project budgets are adopted for enterprise capital project funds. Appropriations for funds that adopt annual budgets lapse at the end of the budget year. Project budgeted appropriations do not lapse until the completion of the project. All budgets are prepared using the modified accrual basis of accounting. Budgets are susceptible to amendment at any time and are amended as necessary by the governing board. Individual amendments to the original General Fund budget were not material in relation to the original appropriations, and all amendments were legally made. The budget amounts shown in the combined financial statements represent the budget as amended at June 30, 2010.

The Town's budget, however, is prepared in greater detail by individual accounts. The Town's management may adjust these accounts within a department without affecting the department's total appropriation. Management cannot make changes to a department's total appropriation without Council's approval.

G. Assets, Liabilities, and Fund Equity

Deposits

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

Investments

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

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Cash and Cash Equivalents

The Town pools monies 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. Investment earnings are allocated to all funds based on the individual fund's cash balance outstanding at the end of each month.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Any unexpended debt proceeds of the enterprise capital project funds are classified as restricted assets within their respective funds because their use is completely restricted to the purpose for which the debt was originally issued.

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, the beginning of the fiscal year. The taxes are due September 1st (lien date); however, penalties and interest do not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2009. Ad valorem taxes receivable are not accrued as revenue because the amount is not considered "available". At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. An amount equal to the receivable is shown as deferred revenue on the Combined Balance Sheet. The ad valorem taxes receivable presented in Exhibit A are net of an allowance for doubtful accounts of \$15,000.

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. Allowance for doubtful accounts for all funds is as follows:

	<u>General Fund</u>	<u>Water and Sewer Enterprise Fund</u>
Garbage fees receivable	\$ 4,000	\$ -
Water receivable	-	19,000
Sewer receivable	-	19,000
Total	<u>\$ 4,000</u>	<u>\$ 38,000</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost greater than \$2,500 and an estimated useful life greater than two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or significantly extend the asset's life are not capitalized.

The Town capitalizes interest costs, which are incurred during the construction period of capital assets.

In conjunction with implementing GASB 34, "The New Reporting Model", the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2005. Infrastructure assets exceeding the Town's capitalization threshold of \$2,500 will be reported as capital assets in the Statement of Net Assets. General governmental infrastructure assets acquired prior to July 1, 2005 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Assets only include assets purchased after July 1, 2005.

Depreciation on buildings, plant assets, equipment, and vehicles is computed using the straight-line method over estimated useful lives as follows:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Water and sewer system plants	40 years
Buildings	40 years
Equipment and fixtures	7 years
Vehicles	6 years
Computer equipment	3 years

Compensated Absences

Town employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation days up to a maximum of 30 days. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements. Vacation pay taken is relieved using the first-in, first-out method. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. The

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Town's sick leave policy provides for unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave at the time of retirement may be used in the determination of length of service for retirement benefit purposes. In accordance with the provisions of Statement of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Deferred/Unearned Revenues

In the fund financial statements, ad valorem taxes receivable are not accrued as revenue because they are not considered to be both "measurable and available". Ad valorem taxes receivable that are measurable, but not available, are recorded as deferred revenue in the fund financial statements. In addition, property taxes collected in advance of the fiscal year to which they apply are also recorded as unearned revenue in the government-wide financial statements and deferred revenue in the fund financial statements. Certain receivables are also recorded as deferred revenue in the fund financial statements because they are not considered to be available at year-end.

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 fund Statement of Net Assets. Debt issuance costs are recognized as other assets and amortized over the life of the debt using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of the debt 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 net proceeds received, are reported as debt service expenditures.

Fund Equity/Net Assets

Reservations or restrictions of equity represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

The governmental fund types classify fund balances as follows:

Reserved

Reserved by State Statute - portion of fund balance which is not available for appropriation under State law. This amount is usually comprised of accounts receivable and interfund receivables which are not offset by deferred revenues.

Reserved for Highways and Streets - portion of fund balance that is available for appropriation but legally segregated for street expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Interfund Transactions

Interfund services provided are accounted for as revenue or expenses in the government-wide financial statements since they would be treated as such if they involved organizations external to the Town. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Town complies with G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2010, the Town's deposits had a carrying amount of \$1,080,748 and a bank balance of \$1,132,743, of which \$250,000 was covered by federal depository insurance and \$882,743 was covered by collateral held under the Pooling Method by the State Treasurer.

Restricted cash represents cash held by enterprise funds restricted for water and sewer system improvements.

Investments

At June 30, 2010, the Town had \$919,575 invested with North Carolina Capital Management Trust in the cash portfolio, which carried a credit rating of AAAM by Standard and Poor's as of June 30, 2010. The Town has no policy regarding credit risk.

Intergovernmental Receivables

Intergovernmental receivables consisted of the following at June 30, 2010:

Sales tax	\$ 60,017
Utility franchise tax	55,000
Due from Craven County	5,000
Sales tax refund	<u>33,870</u>
Total	<u>\$ 153,887</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Capital Assets

The following is a summary of changes in the governmental capital assets during the fiscal year:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
By Type:				
Non-Depreciable Capital Assets:				
Land	\$ 152,637	\$ -	\$ -	\$ 152,637
Depreciable Capital Assets:				
Buildings and improvements	968,861	-	-	968,861
Infrastructure	-	34,238	-	34,238
Computer equipment	46,291	-	-	46,291
Equipment	477,944	-	-	477,944
Furniture and fixtures	37,249	-	-	37,249
Vehicles	1,103,998	7,645	-	1,111,643
Total depreciable capital assets	2,634,343	41,883	-	2,676,226
Less Accumulated Depreciation:				
Buildings and improvements	436,196	24,221	-	460,417
Infrastructure	-	1,141	-	1,141
Computer equipment	31,846	6,667	-	38,513
Equipment	237,648	37,632	-	275,280
Furniture and fixtures	37,249	-	-	37,249
Vehicles	817,833	94,189	-	912,022
Total accumulated depreciation	1,560,772	\$ 163,850	\$ -	1,724,622
Depreciable capital assets, net	1,073,571			951,604
Capital assets, net	\$ 1,226,208			\$ 1,104,241

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

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

Governmental Activities:

General government	\$ 29,493
Public safety	70,456
Highways and streets	36,047
Cultural and recreational	<u>27,854</u>
Total	<u>\$ 163,850</u>

The following is summary of changes in the enterprise fund-type capital assets for the fiscal year:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land and improvements	\$ 226,764	\$ -	\$ -	\$ 226,764
Construction in progress	<u>1,122,869</u>	<u>91</u>	<u>-</u>	<u>1,122,960</u>
Total non-depreciable capital assets	<u>1,349,633</u>	<u>91</u>	<u>-</u>	<u>1,349,724</u>
Depreciable Capital Assets:				
Equipment	324,949	-	-	324,949
Plant and distribution system	8,232,770	-	-	8,232,770
Vehicles	<u>67,251</u>	<u>298,112</u>	<u>-</u>	<u>365,363</u>
Total depreciable capital assets	<u>8,624,970</u>	<u>298,112</u>	<u>-</u>	<u>8,923,082</u>
Less Accumulated Depreciation:				
Equipment	155,566	35,239	-	190,805
Plant and distribution system	4,246,995	171,580	-	4,418,575
Vehicles	<u>54,289</u>	<u>38,300</u>	<u>-</u>	<u>92,589</u>
Total accumulated depreciation	<u>4,456,850</u>	<u>\$ 245,119</u>	<u>\$ -</u>	<u>4,701,969</u>
Depreciable capital assets, net	<u>4,168,120</u>			<u>4,221,113</u>
Capital assets, net	<u>\$ 5,517,753</u>			<u>\$ 5,570,837</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

B. Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2010 were as follows:

<u>Type of Payable</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Trade payables	\$ 37,953	\$ 8,200	\$ 46,153
Accrued salaries and fringes	66,920	20,647	87,567
Total	<u>\$ 104,873</u>	<u>\$ 28,847</u>	<u>\$ 133,720</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description

The Town contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the basic financial report for the State of North Carolina. The report 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 is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.86%, respectively, of annual covered payroll.

The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2009, and 2010 were \$142,034, \$141,996, and \$145,870 respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Law Enforcement Officers' Special Separation Allowance

Plan Description

The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Plan benefits are funded on a pay-as-you-go basis. The activity of the plan is reported in the General Fund. The plan does not issue separate, audited GAAP-based financial statements. There was no actuarial study of the plan liabilities and that liability is considered immaterial.

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.

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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to six percent of each officer's salary, and all amounts contributed are vested immediately. Employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2010 were \$23,878, which consisted of \$18,678 from the Town and \$5,200 from the employees.

Supplemental Retirement Income Plan for Non-Law Enforcement Employees

All non-law enforcement employees employed by the Town participate in the Supplemental Retirement Income Plan, a defined contribution pension plan. Participation begins after the completion of at least three (3) months continuous employment with the Town. The Town has no requirement or obligation under State statutes to contribute to this Plan; however, the Town has adopted the Supplemental Retirement Plan of North Carolina 401(k) for its non-law enforcement employees. The Town contributes three percent of each employee's salary, and all amounts contributed are vested immediately. Also, employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2010 were \$67,551, which consisted of \$38,699 from the Town and \$28,852 from the non-law enforcement employees.

Deferred/Unearned Revenues

As discussed in the Summary of Significant Accounting Policies (Note 1), ad valorem taxes receivable are not accrued as revenue because they are not considered to be both "measurable and available". Property taxes which are measurable, but not available, should be initially recorded as deferred revenue. In addition, property taxes collected in advance of the fiscal year to which they apply should also be recorded as deferred revenue. The balance of deferred revenue at year-end is comprised of the following:

	<u>Deferred Revenues</u>	<u>Unearned Revenues</u>
General Fund:		
Property taxes receivable	\$ 46,807	\$ -
Garbage fees receivable	<u>36,339</u>	<u>-</u>
Total	<u>\$ 83,146</u>	<u>\$ -</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Long-Term Obligations

Notes Payable

Governmental Activities Long-Term Debt

5.47% note, payable in annual installments of \$11,360 including interest, with a final payment due in fiscal year 2011; secured by land	\$ 10,771
3.51% note, payable in annual installments of \$12,495 including interest, with a final payment due in fiscal year 2012; secured by dump truck	23,733
3.69% note, payable in annual installments of \$9,778 including interest, with a final payment due in fiscal year 2012; secured by ambulance	18,525
4.02% note, payable in annual installments of \$9,333 including interest, with a final payment due in fiscal year 2018; secured by real estate	<u>74,667</u>
Total installment notes payable - governmental activities	<u>\$ 127,696</u>

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2010, are as follows:

Year Ended June 30	Principal	Interest	Total
2011	\$ 40,861	\$ 6,959	\$ 47,820
2012	30,835	5,018	35,853
2013	9,333	3,640	12,973
2014	9,333	3,033	12,366
2015	9,333	2,427	11,760
2016-2018	<u>28,001</u>	<u>3,640</u>	<u>31,641</u>
Total	<u>\$ 127,696</u>	<u>\$ 24,717</u>	<u>\$ 152,413</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Long-Term Debt

Enterprise Fund

Installment Notes Payable

3.05% note, payable in annual installments of \$54,667 including interest through 2015; secured by vehicle	\$ 250,000
2.60% note, payable in annual principal installments of \$112,500 and semi-annual interest payments through fiscal year November 2021; secured by plant and equipment	1,237,500
5.75% note, payable in annual principal installments of \$7,246 including interest through 2025; secured system assets	<u>108,693</u>
Total Enterprise Fund notes payable	<u>\$ 1,596,193</u>

General Obligation Bonds

Enterprise Funds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds since they are expected to be repaid from proprietary revenues. All general obligation bonds are collateralized by the faith, credit, and taxing power of the Town.

\$1,000,000 - 1998 Water and Sewer bond due to the USDA in annual installments (\$62,500 - \$42,100) including interest; final payment due June 2041	\$ 905,000
\$1,700,000 - 2008 Water and Sewer bond due to the USDA in annual installments (\$95,590 - \$46,528.77) including interest; final payment due June 2047	<u>1,682,000</u>
Total Enterprise Fund general obligation bonds	<u>\$ 2,587,000</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Maturities of long-term debt in the five years subsequent to June 30, 2010, are as follows:

Year Ended June 30	Installment Notes Payable			Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 166,788	\$ 46,050	\$ 212,838	\$ 33,500	\$ 123,203	\$ 156,703
2012	168,222	41,273	209,495	35,500	121,586	157,086
2013	169,701	36,454	206,155	37,500	119,873	157,373
2014	171,225	31,588	202,813	39,000	118,061	157,061
2015	172,794	26,676	199,470	41,000	116,179	157,179
2016-2020	598,731	75,166	673,897	233,500	549,514	783,014
2021-2025	148,732	9,175	157,907	290,500	487,834	778,334
2026-2030	-	-	-	364,500	411,008	775,508
2031-2035	-	-	-	451,000	314,288	765,288
2036-2040	-	-	-	517,000	199,410	716,410
2041-2045	-	-	-	400,000	83,100	483,100
2046-2047	-	-	-	144,000	9,720	153,720
Total	<u>\$ 1,596,193</u>	<u>\$ 266,382</u>	<u>\$ 1,862,575</u>	<u>\$ 2,587,000</u>	<u>\$ 2,653,776</u>	<u>\$ 5,240,776</u>

Long-Term Debt Obligation Activity

The following is a summary of the changes in the governmental activities long-term debt or obligations as of June 30, 2010:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
By Type of Debt:					
Notes payable	\$ 199,932	\$ -	\$ (72,236)	\$ 127,696	\$ 40,861
Accrued vacation pay	51,077	47,910	(32,007)	66,980	25,000
Total	<u>\$ 251,009</u>	<u>\$ 47,910</u>	<u>\$ (104,243)</u>	<u>\$ 194,676</u>	<u>\$ 65,861</u>

The General Fund provides the resources for the retirement of compensated absences payable. The Town's legal debt limit is 8% of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2010 amounts to approximately \$19,800,000.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

The following is a summary of changes in the Town's business-type activities long-term debt:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Bonds payable	\$ 2,619,000	\$ -	\$ (32,000)	\$ 2,587,000	\$ 33,500
Notes payable	1,465,939	250,000	(119,746)	1,596,193	166,788
Compensated absences	8,224	14,188	(3,909)	18,503	14,000
Total	<u>\$ 4,093,163</u>	<u>\$ 264,188</u>	<u>\$ (155,655)</u>	<u>\$ 4,201,696</u>	<u>\$ 214,288</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The Town carries commercial coverage for all risks of loss. The Town participates in self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage up to \$1 million per building per occurrence, workers' compensation coverage up to the statutory limits, and employee health insurance up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for varying limits of losses based on the type of coverage. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town does not carry flood insurance as it is in area "X" regarding flood zoning.

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 Town Manager, Town Clerk/Tax Collector, and Finance Officer are individually bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2010 consisted of the following:

	<u>Amount</u>
From the General Fund to the Fire and Rescue District Fund to fund operations	<u>\$ 235,818</u>

3. Stewardship, Compliance, and Accountability

Excess of expenditures over appropriations in individual funds:

The City has overextended its budget authority at the legal level of control as of June 30, 2010 as follows:

<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Administration	\$ 263,946	\$ 277,113	\$ (13,167)
Police	575,068	608,842	(33,774)
Planning and inspections	116,366	124,615	(8,249)
Public works	148,325	153,945	(5,620)
Non-Powell bill funds	50,000	63,122	(13,122)

The Town will monitor the budget more closely in the future.

4. Contingencies

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 monies to the grantor agencies. Management believes that any amounts to be refunded to be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	2010			2009
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Taxes:				
Ad Valorem Taxes:				
Current year property tax	\$ 861,278	\$ 829,951	\$ (31,327)	\$ 782,415
Motor vehicle tax - current and delinquent	72,000	60,500	(11,500)	73,326
Prior years' property tax	2,000	18,386	16,386	2,586
Total ad valorem taxes	935,278	908,837	(26,441)	858,327
Unrestricted Intergovernmental Revenues:				
Franchise tax	200,000	230,138	30,138	206,617
Beer and wine tax	15,000	5,925	(9,075)	17,093
Local option sales tax	240,000	209,592	(30,408)	262,851
Carteret County ABC revenues	10,000	-	(10,000)	9,165
Total unrestricted intergovernmental revenues	465,000	445,655	(19,345)	495,726
Restricted Intergovernmental Revenues:				
Powell Bill	101,792	107,824	6,032	114,374
Federal, State and local grants	14,246	13,750	(496)	67,018
Total restricted intergovernmental revenues	116,038	121,574	5,536	181,392
Licenses and Permits:				
Building permits	50,000	29,808	(20,192)	32,807
Privilege license	7,500	7,626	126	7,421
Impact/facility fee charges	2,500	250	(2,250)	2,000
Cable franchise fees	4,000	1,164	(2,836)	4,501
Total licenses and permits	64,000	38,848	(25,152)	46,729
Sales and Services:				
Commission - trash stickers	1,200	2,650	1,450	1,775
Contribution from recreation	500	225	(275)	115
Fees for garbage pickup	259,000	251,573	(7,427)	250,652
School resource officer fees	47,250	50,818	3,568	47,250
Total sales and services	307,950	305,266	(2,684)	299,792
Interest:				
Investment earnings	15,000	585	(14,415)	7,179

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	<u>2010</u>			<u>2009</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Miscellaneous Revenue:				
Court facility fee and refunds	1,500	1,719	219	2,504
Sale of capital assets	4,000	300	(3,700)	5,014
Miscellaneous	<u>28,500</u>	<u>12,218</u>	<u>(16,282)</u>	<u>23,341</u>
Total miscellaneous	<u>34,000</u>	<u>14,237</u>	<u>(19,763)</u>	<u>30,859</u>
Total revenues	<u>1,937,266</u>	<u>1,835,002</u>	<u>(102,264)</u>	<u>1,920,004</u>
Expenditures:				
Current:				
General Government:				
Governing Body:				
Fees paid to elected officials	807	621	186	17,961
Operating expenses	<u>50,500</u>	<u>50,591</u>	<u>(91)</u>	<u>49,568</u>
Total governing body	<u>51,307</u>	<u>51,212</u>	<u>95</u>	<u>67,529</u>
Administration:				
Salaries and benefits	165,496	170,406	(4,910)	196,692
Operating expenses	97,600	105,868	(8,268)	75,067
Capital outlay	<u>850</u>	<u>839</u>	<u>11</u>	<u>21,591</u>
Total administration	<u>263,946</u>	<u>277,113</u>	<u>(13,167)</u>	<u>293,350</u>
Total general government	<u>315,253</u>	<u>328,325</u>	<u>(13,072)</u>	<u>360,879</u>
Public Safety:				
Police:				
Salaries and benefits	486,526	517,576	(31,050)	493,839
Operating expenses	78,790	81,514	(2,724)	106,093
Capital outlay	<u>9,752</u>	<u>9,752</u>	<u>-</u>	<u>30,743</u>
Total police	<u>575,068</u>	<u>608,842</u>	<u>(33,774)</u>	<u>630,675</u>
Planning and Inspections:				
Salaries and benefits	111,116	120,520	(9,404)	112,808
Operating expenses	5,250	4,095	1,155	6,490
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>190</u>
Total planning and inspections	<u>116,366</u>	<u>124,615</u>	<u>(8,249)</u>	<u>119,488</u>

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	<u>2010</u>			<u>2009</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Emergency Management:				
Operating expenses	-	-	-	333
Capital outlay	-	-	-	109
Total emergency management	-	-	-	442
Total public safety	691,434	733,457	(42,023)	750,605
Public Works and Streets:				
Public Works:				
Salaries and benefits	119,775	127,223	(7,448)	122,718
Operating expenses	27,050	25,265	1,785	39,992
Capital outlay	1,500	1,457	43	42,176
Total public works	148,325	153,945	(5,620)	204,886
Fleet Maintenance:				
Salaries and benefits	22,919	23,334	(415)	24,534
Operating expenses	79,850	76,930	2,920	83,019
Capital outlay	1,000	1,390	(390)	1,000
Total fleet maintenance	103,769	101,654	2,115	108,553
Powell Bill Funds:				
Salaries and benefits	35,754	35,620	134	38,673
Operating expenses	15,250	12,152	3,098	14,217
Capital outlay	38,500	31,921	6,579	36,478
Total Powell Bill funds	89,504	79,693	9,811	89,368
Non-Powell Bill Funds:				
Operating expenses	50,000	63,122	(13,122)	51,380
Total non-Powell Bill funds	50,000	63,122	(13,122)	51,380
Highways and Streets	391,598	398,414	(6,816)	454,187
Sanitation:				
Operating expenses	219,450	218,302	1,148	213,013
Total sanitation	219,450	218,302	1,148	213,013

TOWN OF NEWPORT, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	<u>2010</u>			<u>2009</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Cultural and Recreation:				
Cultural:				
Library operations	<u>73,000</u>	<u>73,000</u>	<u>-</u>	<u>70,025</u>
Total cultural	<u>73,000</u>	<u>73,000</u>	<u>-</u>	<u>70,025</u>
Recreation:				
Special projects	<u>7,000</u>	<u>6,354</u>	<u>646</u>	<u>5,895</u>
Operating expenses	<u>10,000</u>	<u>9,226</u>	<u>774</u>	<u>47,565</u>
Total recreation	<u>17,000</u>	<u>15,580</u>	<u>1,420</u>	<u>53,460</u>
Total cultural and recreation	<u>90,000</u>	<u>88,580</u>	<u>1,420</u>	<u>123,485</u>
Debt Service:				
Principal	<u>30,812</u>	<u>30,812</u>	<u>-</u>	<u>20,966</u>
Interest	<u>7,836</u>	<u>5,794</u>	<u>-</u>	<u>5,513</u>
Total debt service	<u>38,648</u>	<u>36,606</u>	<u>2,042</u>	<u>26,479</u>
Total expenditures	<u>1,746,383</u>	<u>1,803,684</u>	<u>(57,301)</u>	<u>1,928,648</u>
Revenue over (under) expenditures	<u>190,883</u>	<u>31,318</u>	<u>(159,565)</u>	<u>(8,644)</u>
Other Financing Sources (Uses):				
Long-term debt issued	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,000</u>
Transfers out	<u>(235,818)</u>	<u>(235,818)</u>	<u>-</u>	<u>(243,021)</u>
Appropriated fund balance	<u>44,935</u>	<u>-</u>	<u>(44,935)</u>	<u>-</u>
Total other financing sources (uses)	<u>(190,883)</u>	<u>(235,818)</u>	<u>(44,935)</u>	<u>(208,021)</u>
Net change in fund balance	<u>\$ -</u>	<u>(204,500)</u>	<u>\$ (204,500)</u>	<u>(216,665)</u>
Fund Balance:				
Beginning of year, July 1		<u>704,646</u>		<u>921,311</u>
End of year, June 30		<u>\$ 500,146</u>		<u>\$ 704,646</u>

TOWN OF NEWPORT, NORTH CAROLINA

FIRE AND RESCUE DISTRICT - MAJOR SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009

	2010			2009
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Ad valorem taxes	\$ 324,000	\$ 336,000	\$ 12,000	\$ 293,216
Local option sales tax	60,000	65,327	5,327	62,907
Ambulance transport fees	210,000	264,353	54,353	275,651
Grant revenues	20,500	8,930	(11,570)	108,849
Investment earnings	2,000	122	(1,878)	1,224
Miscellaneous income	20,585	12,471	(8,114)	89,670
Total revenues	<u>637,085</u>	<u>687,203</u>	<u>50,118</u>	<u>831,517</u>
Expenditures:				
Public Safety:				
Salaries and benefits	450,951	478,736	(27,785)	462,708
Operating expenses	244,901	239,415	5,486	214,425
Capital outlay	133,000	103,949	29,051	282,933
Total public safety	<u>828,852</u>	<u>822,100</u>	<u>6,752</u>	<u>960,066</u>
Debt Service:				
Principal	41,424	41,424	-	31,110
Interest	2,627	2,627	-	3,162
Total debt service	<u>44,051</u>	<u>44,051</u>	<u>-</u>	<u>34,272</u>
Total expenditures	<u>872,903</u>	<u>866,151</u>	<u>6,752</u>	<u>994,338</u>
Revenues over (under) expenditures	<u>(235,818)</u>	<u>(178,948)</u>	<u>56,870</u>	<u>(162,821)</u>
Other Financing Sources (Uses):				
Transfer from General Fund	235,818	235,818	-	243,021
Long-term debt issued	-	-	-	27,296
Total other financing sources (uses)	<u>235,818</u>	<u>235,818</u>	<u>-</u>	<u>270,317</u>
Net change in fund balance	<u>\$ -</u>	56,870	<u>\$ 56,870</u>	107,496
Fund Balance:				
Beginning of year - July 1		<u>303,525</u>		<u>196,029</u>
End of year - June 30		<u>\$ 360,395</u>		<u>\$ 303,525</u>

TOWN OF NEWPORT, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009**

	2010		Variance Over/Under	2009
	Budget	Actual		Actual
Revenues:				
Operating Revenues:				
Charges for sales and services:				
Water charges	\$ 1,440,400	\$ 1,384,902	\$ (55,498)	\$ 1,315,093
Miscellaneous	5,000	34,741	29,741	29,281
Total operating revenues	1,445,400	1,419,643	(25,757)	1,344,374
Non-Operating Revenues:				
Impact fees	34,000	24,743	(9,257)	63,500
Interest income	10,000	1,038	(8,962)	5,615
Total non-operating revenues	44,000	25,781	(18,219)	69,115
Total revenues	1,489,400	1,445,424	(43,976)	1,413,489
Operating Expenditures:				
Salaries and employee benefits		473,564		434,427
Supplies, maintenance, and administration		539,161		464,205
Capital outlay		311,423		120,298
Total operating expenditures	1,417,145	1,324,148	92,997	1,018,930
Debt Service:				
Principal repayment	151,746	151,746		133,246
Interest	164,509	164,508		168,433
Total debt service	316,255	316,254	1	301,679
Total expenditures	1,733,400	1,640,402	92,998	1,320,609
Revenues over (under) expenditures	(244,000)	(194,978)	49,022	92,880
Other Financing Sources (Uses):				
Long-term debt issued	250,000	250,000	-	-
Contingency	(6,000)	-	6,000	-
Total other financing sources (uses)	244,000	250,000	6,000	-
Net change in fund balance	\$ -	55,022	\$ 55,022	\$ 92,880

TOWN OF NEWPORT, NORTH CAROLINA

**ENTERPRISE FUND - WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2009**

	<u>2010</u>		<u>2009</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
		<u>Variance</u>	
		<u>Over/Under</u>	
Reconciliation of Modified Accrual Basis with Accrual Basis:			
Depreciation		(245,119)	
Issuance of long-term debt		(250,000)	
Investment earnings - capital project		447	
Principal payment		151,746	
Change in accrued vacation		(8,679)	
Capital outlay, capitalized		<u>298,112</u>	
Change in net assets		<u>\$ 1,529</u>	

TOWN OF NEWPORT, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total</u>
		<u>Prior Years</u>	<u>Current Year</u>	
Revenues:				
Restricted intergovernmental revenues	\$ 250,000	\$ 118,860	\$ -	\$ 118,860
Investment earnings	-	-	447	447
Total revenues	<u>250,000</u>	<u>118,860</u>	<u>447</u>	<u>119,307</u>
Expenditures:				
Sewer rehabilitation		49,842	-	49,842
Capital outlay - sewer plant improvements		9,903	91	9,994
Engineering and administrative fees		692,070	-	692,070
Re-use water		<u>371,054</u>	-	<u>371,054</u>
Total expenditures	<u>2,300,000</u>	<u>1,122,869</u>	<u>91</u>	<u>1,122,960</u>
Revenues over (under) expenditures	<u>(2,050,000)</u>	<u>(1,004,009)</u>	<u>356</u>	<u>(1,003,653)</u>
Other Financing Sources (uses):				
Loan issued - USDA	1,800,000	1,701,080	-	1,701,080
Issuance of loan anticipation note	900,000	900,000	-	900,000
Principal repayment of anticipation loan	(900,000)	(900,000)	-	(900,000)
Operating transfers in - Sewer Fund	<u>250,000</u>	-	-	-
Total other financing sources (uses)	<u>2,050,000</u>	<u>1,701,080</u>	<u>-</u>	<u>1,701,080</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 697,071</u>	<u>\$ 356</u>	<u>\$ 697,427</u>

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2010

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2009</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2010</u>
2009-2010	\$ -	\$ 933,234	\$ 892,801	\$ 40,433
2008-2009	27,695	-	15,563	12,132
2007-2008	6,264	-	3,933	2,331
2006-2007	3,810	-	541	3,269
2005-2006	3,129	-	206	2,923
2004-2005	267	-	140	127
2003-2004	160	6	-	166
2002-2003	424	-	40	384
2001-2002	37	5	-	42
2000-2001	-	-	-	-
	<u>41,786</u>	<u>933,245</u>	<u>913,224</u>	
Total	<u>\$ 41,786</u>	<u>\$ 933,245</u>	<u>\$ 913,224</u>	61,807
Less allowance for uncollectible ad valorem taxes receivable				<u>(15,000)</u>
Ad Valorem Taxes Receivable, Net				<u>\$ 46,807</u>
Reconciliation with Revenues:				
Taxes, ad valorem, General Fund				\$ 908,837
Penalties and interest				(3,472)
Adjustments for prior year motor vehicle levy				3,859
Miscellaneous adjustments				<u>4,000</u>
Total collections and credits				<u>\$ 913,224</u>

TOWN OF NEWPORT, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Town-Wide</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy:					
Property taxed at current year's rate	\$ 328,217,742	\$ 0.31	\$ 1,017,475	\$ 1,017,475	\$ -
Utility levy	3,782,903	0.31	11,727	11,727	-
Motor vehicle levy	23,029,355	0.31	71,391	-	71,391
Discoveries	40,645	0.31	126	-	126
Abatements	(3,013,226)	0.31	(9,341)	(6,051)	(3,290)
Exemptions	(51,014,194)	0.31	(158,144)	(158,144)	-
Total property valuation	<u>\$ 301,043,226</u>				
Net Levy			933,234	865,007	68,227
Uncollected taxes at June 30, 2010			<u>40,433</u>	<u>28,524</u>	<u>11,909</u>
Current Year's Taxes Collected			<u>\$ 892,801</u>	<u>\$ 836,483</u>	<u>\$ 56,318</u>
Current Levy Collection Percentage			<u>95.67%</u>	<u>96.70%</u>	<u>82.55%</u>
Prior Year Levy Collection Percentage			<u>96.83%</u>	<u>98.03%</u>	<u>82.41%</u>

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Newport, North Carolina, as of and for the year ended June 30, 2010, not presented here, which collectively comprise the Town of Newport's basic financial statements, and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Newport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Newport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2010-01, 2010-02, 2010-03, 2010-04, and 2010-05, described in the accompanying Schedule of Findings and Responses, to be material weaknesses.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, members of the Town Council, 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
September 15, 2010

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010

1. Summary of Auditors' Results

- A. An unqualified opinion was issued on the financial statements of the Town of Newport, North Carolina.
- B. Our audit of the basic financial statements disclosed material weaknesses in internal controls.
- C. Our audit of the basic financial statements disclosed no instances of non-compliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the basic financial statements.

2. Findings Related to the Audit of the Basic Financial Statements

Finding 2010-1

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting and to safeguard Town assets.

Condition: The subsidiary ledger for customer deposits is not balanced to the general ledger in all aspects.

Effect: When there is no reconciliation of the subsidiary ledger to the general ledger there are opportunities for misappropriation of assets and financial reporting errors.

Cause: Reconciliation from the subsidiary ledger to the general ledger was in place; however, it was insufficient.

Context: While reconciling the subsidiary ledger to the general ledger noted a discrepancy between the subsidiary ledger and the general ledger.

Recommendation: Require the customer deposit records to be reconciled to the general ledger control account on a monthly basis.

Name of contact person: Dick Casey

Corrective Action: The Finance Officer implemented reconciliation procedures in 2010 which improved the Town's internal controls over customer deposits. However, the process of reconciling to the general ledger was insufficient. In July 2010, those procedures have been corrected.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010

Finding 2010-2

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting and to safeguard Town assets.

Condition: The Garbage and Water and Sewer receivable subsidiary ledgers contain a significant amount of inactive accounts.

Effect: The existence of inactive accounts gives opportunity for misappropriation of assets and financial reporting errors.

Cause: Inactive accounts in the subsidiary ledger are not removed from the ledger.

Context: While reviewing the Water and Sewer receivable subsidiary ledger we noted that inactive accounts were reported on the subsidiary ledger.

Recommendation: Require the Garbage and Water and Sewer accounts receivable subsidiary ledgers to be “cleaned up” through reclassification or removal of inactive accounts.

Name of contact person: Dick Casey

Corrective Action: During the current fiscal year, the Town researched a means of segregating the inactive accounts from the subsidiary ledger. The Town expects this finding to be resolved in the 2011 fiscal year, by changing write-off procedures and software adjustments.

Finding 2010-3

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the *Financial Accounting Standards Board* and the *Governmental Accounting Standards Board* requires a level of technical expertise not possessed by Town personnel.

Effect: There is opportunity for financial reporting errors.

Cause: Financial reporting under the accounting standards promulgated by the *Financial Accounting Standards Board* and the *Governmental Accounting Standards Board* requires a level of technical expertise not possessed by Town personnel.

Context: During our planning procedures we noted that Town personnel does not possess the technical expertise required to comply with financial reporting requirements discussed above.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Name of contact person: Dick Casey

Corrective Action: Management concurs with the finding.

Finding 2010-4

Criteria: North Carolina General Statutes require that the Town have policies and procedures in place to monitor budgetary compliance throughout the entire year.

Condition: The Town had departments that had overspent appropriations.

Effect: The Town had expenditures over budgetary restrictions.

Cause: The Town's budget is maintained on the cash basis and year end accruals are not considered in the budgeting process.

Context: While comparing the actual expenditures for the year to the final budget we noted that the Town had expenditures over budgetary restrictions.

Recommendation: The Town should review their budget at the end of the fiscal year to determine if appropriations are sufficient for cash expenditures and accrued expenses.

Name of contact person: Dick Casey

Corrective Action: The Town was in compliance prior to year-end accruals being recorded. The Town will verify that appropriations consider cash expenditures as well as accrued expenses.

Finding 2010-5

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The Town maintains its financial records on the modified accrual basis. Certain accruals of revenues and expenses are necessary at year-end to report the Town's financial statements in accordance with Generally Accepted Accounting Principles. We have provided management with a report of these adjustments. In addition to "normal" year-end audit adjustments the Town had an adjustment related to expenditure recognition based on purchase order dates versus delivery of goods/services dates.

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010

Effect: Errors could occur in financial reporting.

Cause: The Town depends on the auditors to provide year-end accrual adjustments. In the matter of the expenditure recognition, the Town Manager misunderstood the period a transaction is recorded based on the purchase order date versus the delivery of goods/services date.

Context: While reconciling subsidiary ledgers to the general ledger significant audit adjustments were required to report the Town's financial statements in accordance with Generally Accepted Accounting Principles.

Recommendation: Management should acknowledge inherent limitations in the internal control and financial reporting systems and modify their accounting procedures accordingly.

Name of Contact Person: Dick Casey

Corrective Action/Management Response: Management is aware that year-end audit adjustments are typically required. Management will review accounting procedures utilized at year-end to determine what changes need to be made to reduce the number of audit adjustments required at year-end. The error regarding the timing of expenditure recognition has been corrected.

TOWN OF NEWPORT, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Finding 2009-1

Status: Modified and repeated as Finding 2010-1.

Finding 2009-2

Status: Modified and repeated as Finding 2010-2.

Finding 2009-3

Status: Modified and repeated as Finding 2010-3.

Finding 2009-4

Status: Resolved. The Town has now formalized a policy for the posting and approval of journal entries; therefore, this finding is not repeated.