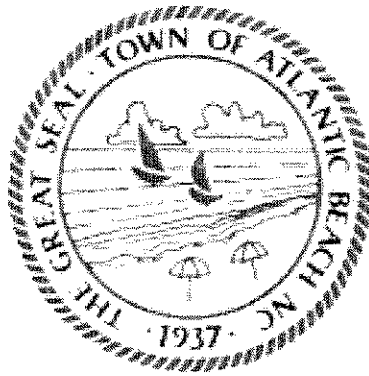


**Statistical Section**  
**Unaudited**



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**Town of Atlantic Beach**  
**Description of the Statistical Schedules**  
**June 30, 2006**

**Contents**

<b>Financial Trends</b>	<b>Table</b>
These schedules contain trend information to assist users in understanding and assessing how the Town's financial position has changed over time.	1 - 4
<b>Revenue Capacity</b>	
These schedules contain information to assist users in understanding and assessing the factors affecting the Town's ability to generate its own-source revenues.	5 - 8
<b>Debt Capacity</b>	
These schedules present information to assist users in understanding and assessing the Town's debt burden and its ability to issue additional debt.	9 - 10
<b>Demographic and Economic Information</b>	
These schedules offer demographic and economic information to assist users in understanding the environment within which the Town operates.	11
<b>Operating Information</b>	
These schedules contain service and infrastructure data to assist readers in understanding and assessing how the Town's financial report relates to the services the Town provides and the activities it performs.	12

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant years.

**Town of Atlantic Beach**  
**Net Assets by Activity**  
**Governmental and Business Type Functions**  
**Last Three Years (1)**

**Table 1**

	Fiscal Year		
	2006	2005	2004
<b>Governmental Activities</b>			
Net assets:			
Invested in capital assets, net			
of related debt	\$ 766,911	\$ 1,057,558	\$ 1,132,608
Restricted	355,530	286,487	219,985
Unrestricted	4,101,143	2,616,077	2,319,077
Total net assets	\$ 5,223,584	\$ 3,960,122	\$ 3,671,670
 <b>Business Type Activities</b>			
Net assets:			
Invested in capital assets, net			
of related debt	\$ 3,557,405	\$ 3,670,084	\$ 3,879,381
Restricted			
Unrestricted	2,458,923	2,104,258	1,763,544
Total net assets	\$ 6,016,328	\$ 5,774,342	\$ 5,642,925
 <b>Total Primary Government</b>			
Net assets:			
Invested in capital assets, net			
of related debt	\$ 4,324,316	\$ 4,727,642	\$ 5,011,989
Restricted	355,530	286,487	219,985
Unrestricted	6,560,066	4,720,335	4,082,621
Total net assets	\$ 11,239,912	\$ 9,734,464	\$ 9,314,595

(1) Town adopted GASB 34 for Fiscal Year ended June 30, 2004

**Town of Atlantic Beach  
Change in Net Assets  
Governmental Activities  
Last Three Years (1)**

**Table 2**

	Fiscal Years		
	2006	2005	2004
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 906,289	\$ 886,230	\$ 770,022
Operating grants and contributions	518,975	105,807	179,594
Capital Grants & Contributions	371,476	-	-
General revenues:			
Property taxes	2,040,535	2,004,824	1,949,565
Other taxes	965,030	896,439	860,920
Grants and contributions not restricted to specific programs	354,813	372,931	257,340
Gain(loss) on disposal of assets	1,029,328		
Other	166,560	52,261	80,815
<b>Total Revenues</b>	<b>6,353,006</b>	<b>4,318,492</b>	<b>4,098,256</b>
<b>Expenses:</b>			
General Government	506,848	584,307	625,401
Public safety	2,581,637	2,368,447	2,410,147
Transportation	14,008	9,238	7,131
Public Works	1,443,899	1,160,722	1,081,454
Public Service	630,957	-	-
Interest on Long-Term Debt	80,197	32,326	14,979
<b>Total Expenses</b>	<b>5,257,546</b>	<b>4,155,040</b>	<b>4,139,112</b>
Increase (decrease) in net assets before transfers	1,095,460	163,452	(40,856)
Transfers	168,000	125,000	125,000
Increase (decrease) in net assets after transfers	1,263,460	288,452	84,144

(1) Town adopted GASB 34 for Fiscal Year ended June 30, 2004

**Town of Atlantic Beach**  
**Change in Net Assets**  
**Business Type Activities**  
**Last Three Years (1)**

**Table 2**

	Fiscal Years		
	2006	2005	2004
Revenues:			
Program revenues:			
Charges for services	\$ 1,018,458	\$ 996,118	\$ 928,482
Operating grants and contributions	-	-	-
Capital Grants & Contributions			
General revenues:			
Property taxes	-	-	-
Other taxes	-	-	-
Grants and contributions not restricted to specific programs	-	-	-
Gain(loss) on disposal of assets	(968)		
Other	94,996	44,887	49,718
Total Revenues	1,112,486	1,041,005	978,200
Expenses:			
General Government	-	-	-
Public safety	-	-	-
Transportation	-	-	-
Public Works	-	-	-
Public Service			
Interest on Long-Term Debt	-	-	-
Water	702,499	784,588	804,941
Total Expenses	702,499	784,588	804,941
Increase (decrease) in net assets before transfers	409,987	256,417	173,259
Transfers	(168,000)	(125,000)	(125,000)
Increase (decrease) in net assets after transfers	241,987	131,417	48,259

(1) Town adopted GASB 34 for Fiscal Year ended June 30, 2004

**Town of Atlantic Beach**  
**Change in Net Assets**  
**Total Primary Government**  
**Last Three Years (1)**

**Table 2**

	Fiscal Years		
	2006	2005	2004
Revenues:			
Program revenues:			
Charges for services	\$ 1,924,747	\$ 1,882,348	\$ 1,698,504
Operating grants and contributions	518,975	105,807	179,594
Capital Grants & Contributions	371,476	-	-
General revenues:			
Property taxes	2,040,535	2,004,824	1,949,565
Other taxes	965,030	896,439	860,920
Grants and contributions not restricted to specific programs	354,813	372,931	257,340
Gain(loss) on disposal of assets	1,028,360	-	-
Other	261,556	97,148	130,533
Total Revenues	7,465,492	5,359,497	5,076,456
Expenses:			
General Government	506,848	584,307	625,401
Public safety	2,581,637	2,368,447	2,410,147
Transportation	14,008	9,238	7,131
Public Works	1,443,899	1,160,722	1,081,454
Public Service	630,957	-	-
Interest on Long-Term Debt	80,197	32,326	14,979
Water	702,499	784,588	804,941
Total Expenses	5,960,045	4,939,628	4,944,053
Increase (decrease) in net assets before transfers	1,505,447	419,869	132,403
Transfers	-	-	-
Increase (decrease) in net assets after transfers	\$ 1,505,447	\$ 419,869	\$ 132,403

(1) Town adopted GASB 34 for Fiscal Year ended June 30, 2004

**Town of Atlantic Beach**  
**Fund Balances of Government Funds**  
**Last Ten Years**

Table 3

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<b>General Fund</b>										
Reserved for:										
State statute	\$806,956	\$ 283,918	\$ 275,572	\$ 221,914	\$ 168,328	\$181,301	\$ 200,494	\$ 224,099	\$ 237,917	\$ 237,018
Streets Powell bill	355,530	286,487	219,985	168,377	100,660	129,546	63,335	43,633	61,040	13,211
Drug Enforcement	-	-	-	-	-	-	-	30,748	16,348	12871
Unreserved, General Fund	1,450,037	2,132,462	1,954,552	2,387,053	2333306	2,419,345	2,856,409	2,653,434	2,270,511	2333356
<b>Total</b>	\$2,612,523	\$2,702,867	\$2,450,109	\$2,777,344	\$2,602,294	\$2,730,192	\$3,120,238	\$2,951,914	\$2,585,816	\$2,596,456
<b>All other Governmental Funds</b>										
Unreserved, reported in:										
Special Revenue Funds	2,017,692	299,702	197,625	100,000	-	-	-	-	-	-
Capital Project Fund	-	-	-	-	-	376,276	388,445	308,757	394,987	-
<b>Total Fund Balances of Governmental Funds</b>	\$4,630,215	\$3,002,569	\$2,647,734	\$2,877,344	\$2,602,294	\$3,106,468	\$3,508,683	\$3,260,671	\$2,980,803	\$2,596,456

**Town of Atlantic Beach  
Changes in Fund Balances in Government Funds  
Last 10 Years**

**Table 4**

	Fiscal Year									
	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<b>REVENUES</b>										
Ad valorem taxes	\$ 2,039,078	\$ 2,002,632	\$ 1,948,643	\$ 1,915,505	\$ 1,736,037	\$ 1,743,749	\$ 1,773,262	\$ 1,812,130	\$ 1,955,566	\$ 1,817,994
Other taxes and licenses	865,030	896,439	826,115	720,050	723,916	793,819	922,139	990,014	998,335	977,361
Unrestricted intergovernmental	354,813	372,931	377,922	352,670	268,929	345,322	315,682	292,976	286,901	320,279
Restricted intergovernmental	881,438	136,446	118,597	132,542	179,656	295,672	526,438	251,464	88,492	188,137
Permits and fees	282,982	276,179	266,862	319,504	251,115	170,814	172,019	227,091	165,792	151,606
Sales and services	606,360	544,253	527,360	440,542	353,050	333,499	320,477	282,511	251,761	251,435
Investment earnings	110,996	52,286	24,190	32,934	70,672	166,937	148,674	106,896	141,971	128,821
Miscellaneous	25,960	35,135	93,422	118,574	60,417	6,484	-	23,509	17,008	112,152
<b>Total revenues</b>	<b>5,166,657</b>	<b>4,316,301</b>	<b>4,183,111</b>	<b>4,032,321</b>	<b>3,643,792</b>	<b>3,856,296</b>	<b>4,180,691</b>	<b>3,986,591</b>	<b>3,905,826</b>	<b>3,947,785</b>
<b>EXPENDITURES</b>										
<b>Current:</b>										
General government	597,341	543,186	558,815	552,487	578,665	536,993	473,402	413,061	450,764	503,860
Public safety	2,625,591	2,248,759	2,805,526	2,110,183	2,303,217	2,137,095	1,783,774	1,698,801	1,568,404	1,794,249
Transportation	14,008	9,238	15,131	4,763	109,062	22,606	31,044	62,727	282,677	398,033
Public works	1,469,556	1,154,989	1,076,810	1,145,178	1,038,846	935,906	908,533	926,520	494,080	570,132
Public service	630,957	-	-	-	-	-	-	-	-	-
Contingency	-	-	-	-	-	-	-	26,890	3,945	11,581
Capital outlay	4,000,000	2,167	2,937	-	-	460,444	599,083	503,133	346,412	-
Debt service:										
Principal	339,643	121,716	86,463	50,000	312,929	191,516	178,140	165,173	305,578	332,229
Interest and other charges	24,129	30,445	16,127	19,660	36,813	44,103	42,703	49,853	69,619	83,912
<b>Total expenditures</b>	<b>9,701,225</b>	<b>4,110,500</b>	<b>4,561,809</b>	<b>3,882,271</b>	<b>4,379,532</b>	<b>4,328,663</b>	<b>4,016,679</b>	<b>3,846,158</b>	<b>3,521,479</b>	<b>3,693,996</b>
Revenue over (under) expenditures	(4,534,568)	205,801	(378,698)	150,050	(735,740)	(472,367)	164,012	140,433	384,347	253,789
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers from other funds	168,000	225,000	225,000	125,000	501,676	410,132	441,144	360,593	721,331	25,000
Transfers to/from major funds	(1,562,426)	(100,000)	(100,000)	(100,000)	(376,276)	(340,000)	(441,144)	(360,593)	(721,331)	-
Proceeds from sale of assets	1,820,000	-	-	-	-	-	-	-	-	-
Proceeds from issuance of debt	4,018,650	24,034	541,320	-	106,166	-	84,000	139,435	-	-
Total other financing sources (uses)	4,444,224	149,034	666,320	25,000	231,566	70,152	84,000	139,435	-	25,000
<b>Net change in fund balance</b>	<b>\$ (90,344)</b>	<b>\$ 354,835</b>	<b>\$ 287,622</b>	<b>\$ 175,050</b>	<b>\$ (504,174)</b>	<b>\$ (402,215)</b>	<b>\$ 248,012</b>	<b>\$ 279,868</b>	<b>\$ 384,347</b>	<b>\$ 278,789</b>
<b>Debt Service as a percentage of noncapital expenditures</b>										
	6.38%	3.70%	2.25%	1.79%	7.99%	6.09%	6.46%	6.43%	11.82%	11.27%

Table 5

**Town of Atlantic Beach**  
**Assessed and Estimated Actual Value of Taxable Property and Overlapping Rates**  
**Last Ten Years (1)**  
**(Unaudited)**

<u>Calendar</u> <u>Tax Year</u>	<u>Fiscal</u> <u>Year</u> <u>Ended</u> <u>June, 30</u>	<u>Real</u> <u>Property</u>	<u>Personal</u> <u>Property</u>	<u>Public</u> <u>Service</u> <u>Companies</u>	<u>Less Elderly</u> <u>Exemptions</u>	<u>Total</u> <u>Assesd</u> <u>Value</u>	<u>Tax</u> <u>Rate</u>	<u>Carteret</u> <u>County</u> <u>Tax Rate</u>
1996	1997	357,891,081	34,195,974	3,818,255	168,866	395,736,444	0.450	0.51
1997	1998	531,506,932	40,082,370	4,838,064	173,248	576,254,118	0.340	0.04
1998	1999	535,156,493	42,349,887	4,773,608	132,569	582,147,419	0.310	0.50
1999	2000	543,757,624	44,361,690	4,535,537	124,184	592,530,667	0.300	0.50
2000	2001	558,151,356	43,861,560	4,530,058	164,009	606,378,965	0.290	0.50
2001	2002	767,047,214	43,719,877	4,726,617	224,185	815,269,523	0.210	0.44
2002	2003	781,079,909	42,979,625	4,705,787	431,775	828,333,546	0.230	0.42
2003	2004	794,036,967	47,597,889	4,696,679	788,057	845,543,478	0.230	0.42
2004	2005	803,693,168	61,190,081	4,725,284	542,942	869,065,591	0.230	0.42
2005	2006	817,100,105	65,528,842	3,954,991	526,896	886,057,042	0.230	0.42

(1) Information obtained from Town Tax Collector

**Table 6**  
**Town of Atlantic Beach**  
**Property Tax Levies, Collections and Credits**  
**Last Ten Fiscal Years**  
**(Unaudited)**

<u>Calendar</u> <u>Tax Year</u>	<u>Fiscal</u> <u>Year</u> <u>Ended</u>	<u>Total Tax</u> <u>Levy</u>	<u>Current Tax</u> <u>Collections</u>	<u>Percent of Levy</u> <u>Collected</u>	<u>Delinquent Tax</u> <u>Collections</u>	<u>Total Tax</u> <u>Collections</u>	<u>Total Tax</u> <u>as a percent</u> <u>of Current Tax Levy</u>	<u>Outstanding</u> <u>Delinquent</u> <u>Taxes</u>	<u>Outstanding</u> <u>Delinquent</u> <u>Taxes as a</u> <u>Percent of</u> <u>Current Tax Levy</u>
1996	1997	1,780,814	1,766,933	99.22%	40,698	1,807,631	101.51%	26,637	1.50%
1997	1998	1,959,264	1,942,989	99.17%	9,717	1,952,706	99.67%	32,579	1.66%
1998	1999	1,804,657	1,793,140	99.36%	14,845	1,807,985	100.18%	17,393	0.96%
1999	2000	1,782,179	1,755,599	98.51%	15,696	1,771,295	99.39%	22,703	1.27%
2000	2001	1,758,499	1,732,446	98.52%	7,852	1,740,298	98.96%	40,904	2.33%
2001	2002	1,712,066	1,704,205	99.54%	27,714	1,731,919	99.54%	20,980	1.23%
2002	2003	1,905,167	1,898,060	99.63%	13,857	1,911,917	99.63%	14,230	0.75%
2003	2004	1,944,750	1,938,355	99.67%	5,474	1,943,829	99.67%	15,151	0.78%
2004	2005	1,998,851	1,992,794	99.70%	5,811	1,998,605	99.99%	17,343	0.87%
2005	2006	2,037,932	2,030,051	99.61%	6,205	2,036,256	99.92%	19,058	0.94%

(1) Town Records

**Town of Atlantic Beach  
Top Ten Taxpayers**

**Table 7**

TAXPAYER	TYPE OF BUSINESS	VALUATION	PERCENTAGE OF TOTAL ASSESSED VALUATION
GR&S Atlantic Beach, LLC	Hotel	14,305,826	1.66%
Dunes Club, Inc.	Private Club	5,891,973	0.68%
Atlantic Station, Inc.	Shopping Center	5,357,079	0.62%
Fred M Bunn Etal James	Mobile Home Park/Marina	4,682,918	0.54%
Coral Bay Club, Inc.	Private Club	3,570,865	0.41%
Oceanana Resort LLC	Motel	3,022,877	0.35%
James H Pou Bailey, Jr	Marina/Mobile Home Park	2,794,363	0.32%
Neel-Kanth, LLC	Motel	2,374,481	0.27%
Ned T Grady Etux Etal	Mobile Home Park	1,930,254	0.22%
Form Meshekoff Family LTD	Shopping Center	<u>1,917,301</u>	0.22%
		<u>45,847,937</u>	<u>5.31%</u>
	Total Assessed Value	863,683,364	100.00%

**Town of Atlantic Beach**  
**Property Tax Levies - Carteret County Municipalities**  
**Last Ten Years**

**Table 8**

FISCAL YEAR ENDED JUNE 30,	CARTERET COUNTY	ATLANTIC BEACH	BEAUFORT	BOGUE	CAPE CARTEREI	CEDAR POINT	EMERALD ISLE
1996	19,766,847	1,778,615	709,115		283,654	30,628	1,395,277
1997	20,350,690	1,777,602	721,406	8,708	296,217	34,581	1,459,067
*1998	23,860,703	1,938,175	882,595	11,065	303,648	43,895	1,726,922
1999	24,438,585	1,801,257	898,436	11,755	316,252	44,822	1,901,611
2000	30,583,154	1,771,957	927,657	13,058	347,180	48,127	2,048,097
2001	32,752,217	1,765,884	1,078,898	14,288	352,540	57,084	2,099,668
2002	34,539,854	1,726,765	1,279,479	18,705	398,979	76,059	2,365,569
2003	34,267,091	1,903,475	1,347,795	18,784	417,378	80,627	4,475,891
2004	35,721,378	1,972,470	1,448,777	20,712	436,623	102,815	4,415,822
2005	36,686,952	2,004,740	1,593,537	21,425	455,526	106,266	4,356,885
2006	44,135,981	2,037,290	1,665,596	20,964	472,010	91,915	4,321,701

(1) NC Department of Revenue - Sales Tax Division

Note: Values are stated at September 30

\* Revaluation year

**Town of Atlantic Beach**  
**Property Tax Levies - Carteret County Municipalities**  
**Last Ten Years**

**Table 8**

<u>FISCAL</u> <u>YEAR</u> <u>ENDED</u> <u>JUNE 30,</u>	<u>INDIAN</u> <u>BEACH</u>	<u>MOREHEAD</u> <u>CITY</u>	<u>NEWPORT</u>	<u>PELLETIER</u>	<u>PINE</u> <u>KNOLL</u> <u>SHORES</u>	<u>TOTAL</u> <u>TAX</u> <u>LEVIES</u>
1996	135,831	1,870,265	335,484		618,775	26,924,491
1997	139,909	1,958,952	340,425	3,956	629,394	27,722,904
*1998	156,853	2,405,473	406,717	8,284	643,173	32,387,503
1999	177,943	2,568,935	469,100	9,905	655,710	33,296,310
2000	180,926	2,655,846	518,691	11,722	673,087	39,781,502
2001	190,873	2,771,792	529,075	11,518	690,696	42,314,533
2002	700,192	3,282,582	612,737	17,106	856,672	45,874,699
2003	727,051	3,421,986	693,513	17,031	1,945,753	49,316,375
2004	792,617	3,583,780	734,328	19,197	2,123,935	51,372,454
2005	445,109	3,713,437	786,464	18,888	2,138,411	52,327,640
2006	431,750	4,025,524	757,769	18,514	2,163,371	60,142,385

**Town of Atlantic Beach**  
**Computation of Legal Debt Margin**  
**June 30, 2006**  
**Unaudited**

**Table 9**

Total Assessed Valuation	\$ 886,057,042
Legal Debt Margin:	
Debt Limit 8% of Total Assessed Value	70,884,563
Amount of Debt Applicable to Debt Limit	<u>204,545</u>
Legal Debt Margin	<u><u>\$ 70,680,018</u></u>

**Town of Atlantic Beach**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2006**  
**(Unaudited)**

**Table 10**

	Net General Obligation Bonded Debt	Percentage Applicable to Town	Amount Applicable to Town
Direct:			
Town of Atlantic Beach	\$ 204,545	100%	\$ 204,545
Overlapping:			
Carteret County	47,605,000	11%	5,236,550
	\$ 47,809,545		\$ 5,441,095

(1) The percentage of indebtedness of the town's overlapping political units is determined by dividing the town's assessed valuation by the total assessed valuation of the county.

Town's assessed valuation	\$ 886,057,042	
County's assessed valuation	\$8,143,029,955	
	11%	

**Town of Atlantic Beach  
Demographic Information  
Last Ten Years**

**Table 11**

<u>Fiscal Year Ended June 30</u>	<u>Estimated Population (1)</u>	<u>Unemployment Ratio % (2)</u>
1997	2304	3.2
1998	2297	3.0
1999	2298	3.0
2000	2298	3.1
2001	1786	4.9
2002	1777	5.8
2003	1780	4.8
2004	1765	2.8
2005	1791	4.0
2006	1801	3.6

(1) NC League of Municipalities

(2) Employment Security Commission

**Town of Atlantic Beach  
Operations Information  
June 30, 2006**

**Table 12**

Population	1,801
Date of Incorporation	1937
Form of Government	Council/Manager
Area (Extra-territorial Jurisdiction)	2.3 Square Miles
Miles of paved street (State Maintained)	5.5
City Maintained Paved	17.06
City Maintained Unpaved	0.36
Number of Street Lights	469
Employees	61
 Fire Protection:	
Number of Stations	1
Number of Firemen/Officers	13
Number of Volunteers	15
I.S.O. Rating	4
Number of Hydrants	231
 Police Department:	
Number of Stations	1
Number of Police/Officers Paid	17
Number of Auxiliary	0
Number of Civilians Paid	6
 Water Department:	
Number of Consumers	6912
Average Daily Consumption - Summer (April - Oct.)	831,000
Average Daily Consumption - Winter (Nov. - March)	406,000
Number of Wells	6
Number of Water Tanks (size)	3      500,000
Daily Max Pumping Capacity of Wells	Gal/Day      1,740,000
 Public Beach Accesses:	
Number Improved with Structures	15
Number Un-Improved	3
 Miles of Public Beachfront	 4.6 Miles
 Tax Base	 \$886,057,042
Tax Rate	\$ .23 per \$100

# **CARTER, WILLIAMS & SCARBOROUGH, L.L.P.**

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RESPOND TO:

## **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 Board of Directors of  
Town of Atlantic Beach  
New Bern, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Atlantic Beach, North Carolina, as of and for the year ended June 30, 2006, which collectively comprise the Town of Atlantic Beach, North Carolina's basic financial statements and have issued our report thereon dated October 31, 2006. 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

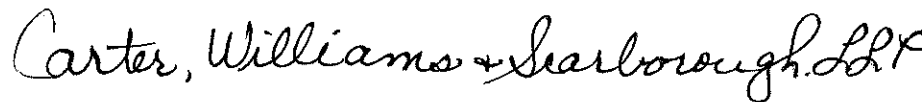
In planning and performing our audit, we considered the Town of Atlantic Beach's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

### Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Atlantic Beach, in a separate letter dated October 31, 2006.

This report is intended solely for the information and use of the management, Board Members, Federal and State awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.



CARTER, WILLIAMS & SCARBOROUGH, L.L.P.

October 31, 2006

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RESPOND TO:

New Bern

Honorable Mayor and Members of  
The Town Council  
Town of Atlantic Beach, North Carolina

In planning and performing our audit of the financial statements of the Town of Atlantic Beach, North Carolina for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Town of Atlantic Beach's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

## Cash Disbursements

Cash disbursements should be supported by proper documentation, including an approved purchase order or contract. Our tests revealed instances where one of the department heads incurred expenditures without proper purchase order procedures being followed. We would like to note, that the unapproved purchases tested would have been approved had the procedure been followed. Additionally, the point has been made that certain purchases are on an ad hoc basis and time does not allow for the proper procedures to be followed; however, policy should be adhered to in all possible situations. We recommend that all department heads be required to obtain approved purchase orders on all disbursements that in the aggregate exceed \$500.00. This will ensure accountability. Further, if a situation arises that requires immediate action, a policy needs to be put in place so that the approval process can be adhered to.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Town Council, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Carter, Williams & Scarborough, LLP*

CARTER, WILLIAMS & SCARBOROUGH, L.L.P.

October 31, 2006