

CARTER, WILLIAMS & SCARBOROUGH, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

CHRISTOPHER K. WILLIAMS, CPA
STEVEN N. SCARBOROUGH, CPA
CHARLES S. SMITH, CPA
W. RANDALL GRAY, CPA

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
NORTH CAROLINA ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

2131 S. GLENBURNIE ROAD, STE 2
PO BOX 14008
NEW BERN NC 28561
TEL: (252) 638-4000
FAX: (252) 638-3989

824 GUM BRANCH ROAD, STE K
PO BOX 5003
JACKSONVILLE NC 28540
TEL: (910) 455-2196
FAX: (910) 455-1943

RESPOND TO:
New Bern

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

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

Compliance

We have audited the compliance of the Town of Atlantic Beach, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2007. The Town of Atlantic Beach's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Town of Atlantic Beach's management. Our responsibility is to express an opinion on the Town of Atlantic Beach's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Town of Atlantic Beach's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town of Atlantic Beach's compliance with those requirements.

In our opinion, the Town of Atlantic Beach complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Town of Atlantic Beach is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Atlantic Beach's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the Town's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Carter, Williams & Scarborough, LLP

January 8, 2008