

TOWN OF NEWPORT, NORTH CAROLINA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2008

MAYOR

Derryl Garner

TOWN COUNCIL MEMBERS

Richard Kanuck, Sr.

Franklin Blunt

Ken Davis

Homer Blizzard

Eric Lindblade

TOWN MANAGER

Dick Casey

FINANCE OFFICER

Gay Cox

TOWN OF NEWPORT, NORTH CAROLINA

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FOR THE YEAR ENDED JUNE 30, 2008**

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TOWN OF NEWPORT, NORTH CAROLINA

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Martin Starnes & Associates, CPAs, P.A.

A Professional Association of Certified Public Accountants and Management Consultants

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, each major fund, and the aggregate remaining fund information of the Town of Newport, North Carolina, as of and for the year ended June 30, 2008, 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 opinion.

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, each major fund, and the aggregate remaining fund information of the Town of Newport, North Carolina as of June 30, 2008, and 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.

The 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 2, 2008, 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 nonmajor 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 have 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 2, 2008

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, 2008, 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

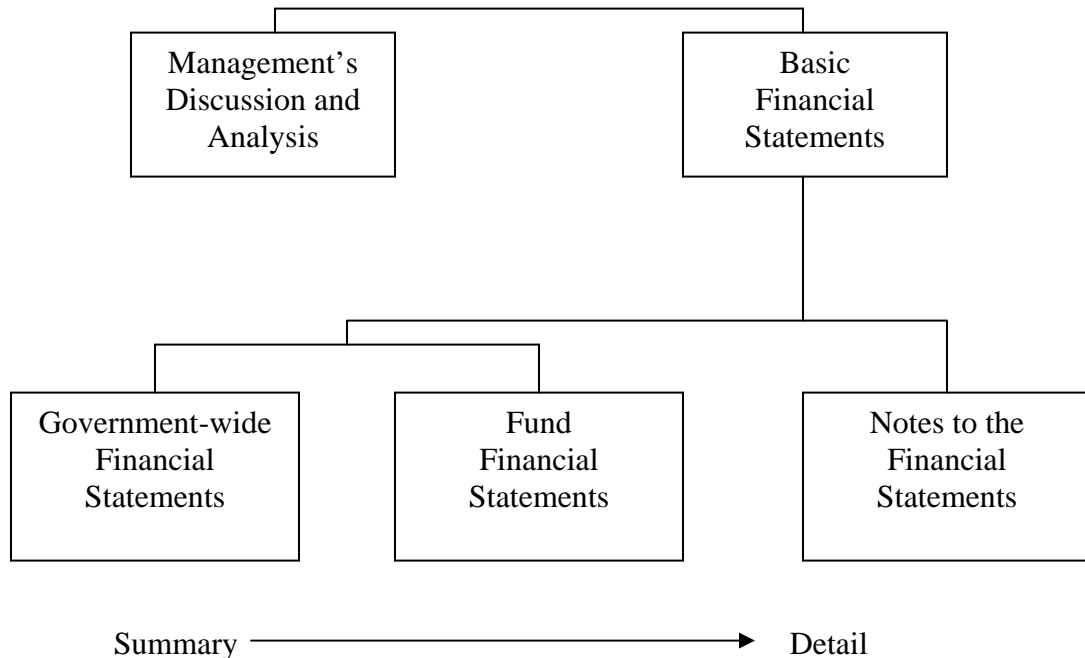
- The Town of Newport's assets exceeded its liabilities at the close of the fiscal year by \$4,653,024.
- The Town's total net assets increased by \$318,363 with 5 percent of the increase coming from governmental activities and 95 percent of the increase coming from business-type activities.
- The financial position of the Town's governmental funds decreased \$61,596 in 2008 as evidenced by a decrease in General Fund balance of \$107,167 and an increase in Fire and Rescue District Fund of 45,571 at June 30, 2008. The Town's governmental funds reported a combined ending fund balance of \$1,117,339. Approximately 62 percent or \$697,764 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 \$524,234 or 33 percent of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis are 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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, 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 - 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 \$4,653,024 at the close of the most recent fiscal year. The Town's net assets increased by \$381,363 for the fiscal year ended June 30, 2008.

A portion of the Town's net assets (85 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is 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>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets:						
Current and other assets	\$ 1,196,635	\$ 1,262,558	\$ 1,345,947	\$ 580,860	\$ 2,542,582	\$ 1,843,418
Capital assets	<u>1,059,707</u>	<u>1,086,765</u>	<u>5,637,687</u>	<u>5,915,171</u>	<u>6,697,394</u>	<u>7,001,936</u>
Total assets	<u>2,256,342</u>	<u>2,349,323</u>	<u>6,983,634</u>	<u>6,496,031</u>	<u>9,239,976</u>	<u>8,845,354</u>
Liabilities:						
Long-term liabilities						
outstanding	177,095	225,971	4,095,648	2,527,555	4,272,743	2,753,526
Other liabilities	<u>90,770</u>	<u>149,255</u>	<u>223,439</u>	<u>1,226,772</u>	<u>314,209</u>	<u>1,376,027</u>
Total liabilities	<u>267,865</u>	<u>375,226</u>	<u>4,319,087</u>	<u>3,754,327</u>	<u>4,586,952</u>	<u>4,129,553</u>
Net Assets:						
Invested in capital assets,						
net of related debt	871,947	807,826	3,064,029	2,551,156	3,935,976	3,358,982
Restricted	181,013	197,863	-	-	181,013	197,863
Unrestricted	<u>935,517</u>	<u>968,408</u>	<u>(399,482)</u>	<u>190,548</u>	<u>536,035</u>	<u>1,158,956</u>
Total net assets	<u>\$ 1,988,477</u>	<u>\$ 1,974,097</u>	<u>\$ 2,664,547</u>	<u>\$ 2,741,704</u>	<u>\$ 4,653,024</u>	<u>\$ 4,715,801</u>

An additional portion of the Town's net assets (4 percent) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$536,035) may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Newport's Changes in Net Assets
Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 724,030	\$ 684,900	\$ 1,453,136	\$ 1,206,268	\$ 2,177,166	\$ 1,891,168
Operating grants and contributions	127,790	241,926	-	-	127,790	241,926
Capital grants and contributions	151,606	112,147	25,939	25,934	177,545	138,081
General revenues:						
Property taxes	1,047,943	880,969	-	-	1,047,943	880,969
Other taxes	590,277	575,488	-	-	590,277	575,488
Other	44,711	45,343	20,632	26,130	65,343	71,473
Total revenues	<u>2,686,357</u>	<u>2,540,773</u>	<u>1,499,707</u>	<u>1,258,332</u>	<u>4,186,064</u>	<u>3,799,105</u>
Expenses:						
General government	294,380	290,206	-	-	294,380	290,206
Public safety	1,478,036	1,397,848	-	-	1,478,036	1,397,848
Transportation	515,167	509,241	-	-	515,167	509,241
Environmental protection	210,046	195,232	-	-	210,046	195,232
Culture and recreation	155,659	131,829	-	-	155,659	131,829
Interest on long-term debt	18,689	20,248	-	-	18,689	20,248
Water and sewer	-	-	1,195,724	1,176,418	1,195,724	1,176,418
Total expenses	<u>2,671,977</u>	<u>2,544,604</u>	<u>1,195,724</u>	<u>1,176,418</u>	<u>3,867,701</u>	<u>3,721,022</u>
Increase in net assets	<u>14,380</u>	<u>(3,831)</u>	<u>303,983</u>	<u>81,914</u>	<u>318,363</u>	<u>78,083</u>
Net assets, July 1	1,974,097	1,977,928	2,741,704	2,659,790	4,715,801	4,637,718
Prior period adjustment	-	-	(381,140)	-	(381,140)	-
Net assets, July 1, restated	<u>1,974,097</u>	<u>1,977,928</u>	<u>2,360,564</u>	<u>2,659,790</u>	<u>4,334,661</u>	<u>4,637,718</u>
Net assets, June 30	<u>\$ 1,988,477</u>	<u>\$ 1,974,097</u>	<u>\$ 2,664,547</u>	<u>\$ 2,741,704</u>	<u>\$ 4,653,024</u>	<u>\$ 4,715,801</u>

Governmental Activities. Governmental activities increased the Town's net assets by \$14,380. Key elements of this increase are as follows:

- Increase in charges for services revenue of \$39,130
- Decrease in operating grants and contributions revenue of \$114,136
- Increase in property tax revenue of \$166,974

Business-Type Activities: Business-type activities increased the Town of Newport's net assets by \$303,983. Key elements of this increase are as follows:

- Increase in charges for services

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 \$524,234, and total fund balance was \$921,309. The unreserved fund balance decreased \$85,728 from 2007 and the total fund balance decreased \$107,167 from 2007. 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 27 percent of total General Fund expenditures, while total fund balance represents 47 percent of that same amount.

At June 30, 2008, the governmental funds of Town of Newport reported a combined fund balance of \$1,117,339, a 5 percent decrease from last year. Included in this change in fund balance is a decrease in the General Fund of \$107,167 and an increase in the Special Revenue funds of \$45,571.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the total revenues and expenditures from the original budget by \$111,396. 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.

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 \$533,018. The change in net assets was \$303,983. 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, 2008, totals \$6,697,394 (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.

Town of Newport's Capital Assets
(net of depreciation)
Figure 4

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 152,637	\$ 152,637	\$ 226,764	\$ 226,764	\$ 379,401	\$ 379,401
Construction in progress	-	-	1,108,033	1,213,703	1,108,033	1,213,703
Equipment and fixtures	164,219	98,857	138,449	135,323	302,668	234,180
Vehicles	185,964	254,162	7,087	10,447	193,051	264,609
Building and improvements	556,887	581,109	-	-	556,887	581,109
Plant and distribution systems	-	-	4,157,354	4,328,934	4,157,354	4,328,934
Total	<u>\$ 1,059,707</u>	<u>\$ 1,086,765</u>	<u>\$ 5,637,687</u>	<u>\$ 5,915,171</u>	<u>\$ 6,697,394</u>	<u>\$ 7,001,936</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, 2008, the Town of Newport had total bonded debt outstanding of \$4,466,114. Of this, \$4,466,114 is debt backed by the full faith and credit of the Town.

General Obligation and Revenue Bonds
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ -	\$ -	\$ 932,500	\$ 945,000	\$ 932,500	\$ 945,000
Compensated absences	44,460	43,210	15,709	14,369	60,169	57,579
Notes payable	187,760	278,939	3,285,685	2,605,432	3,473,445	2,884,371
Total	<u>\$ 232,220</u>	<u>\$ 322,149</u>	<u>\$ 4,233,894</u>	<u>\$ 3,564,801</u>	<u>\$ 4,466,114</u>	<u>\$ 3,886,950</u>

Town of Newport's Outstanding Debt

The Town of Newport's total debt increased by \$579,164 during the past fiscal year.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Newport is approximately \$23,900,000.

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, 2009

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 \$.27 to \$.29.

Budgeted expenditures in the General Fund are expected to remain consistent with prior years.

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 3% inflation driven rate increase. General operating expenses are expected to remain consistent.

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, NC 28570.

TOWN OF NEWPORT, NORTH CAROLINA

STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Assets:			
Cash and cash equivalents	\$ 914,422	\$ 408,453	\$ 1,322,875
Receivables:			
Intergovernmental receivable	197,748	-	197,748
Property taxes receivable	28,759	-	28,759
Accounts receivable	55,706	225,467	281,173
Cash and cash equivalents, restricted	-	712,027	712,027
Capital assets, nondepreciable	152,637	1,334,797	1,487,434
Capital assets, net	<u>907,070</u>	<u>4,302,890</u>	<u>5,209,960</u>
Total assets	<u>2,256,342</u>	<u>6,983,634</u>	<u>9,239,976</u>
Liabilities:			
Accounts payable and accrued liabilities	35,645	11,753	47,398
Customer deposits	-	73,440	73,440
Long-term debt due within one year	55,125	138,246	193,371
Long-term debt due in more than one year	<u>177,095</u>	<u>4,095,648</u>	<u>4,272,743</u>
Total liabilities	<u>267,865</u>	<u>4,319,087</u>	<u>4,586,952</u>
Net Assets:			
Invested in capital assets, net of related debt	871,947	3,064,029	3,935,976
Restricted for streets	181,013	-	181,013
Unrestricted	<u>935,517</u>	<u>(399,482)</u>	<u>536,035</u>
Total net assets	<u>\$ 1,988,477</u>	<u>\$ 2,664,547</u>	<u>\$ 4,653,024</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, 2008**

	<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	\$ 294,380	\$ 172,718	\$ 21,232	\$ -
Public safety	1,433,563	285,763	106,558	-
Public works and streets	515,167	-	-	126,606
Sanitation	210,046	265,549	-	-
Cultural and recreation	155,659	-	-	25,000
Interest on long-term debt	63,162	-	-	-
Total governmental activities	<u>2,671,977</u>	<u>724,030</u>	<u>127,790</u>	<u>151,606</u>
Business-Type Activities:				
Water	<u>1,195,724</u>	<u>1,453,136</u>	<u>-</u>	<u>25,939</u>
Total primary government	<u>\$ 3,867,701</u>	<u>\$ 2,177,166</u>	<u>\$ 127,790</u>	<u>\$ 177,545</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 - as previously stated
Prior period adjustment
Beginning of year, July 1 - as restated

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
\$ (100,430)	\$ -	\$ (100,430)
(1,041,242)	-	(1,041,242)
(388,561)	-	(388,561)
55,503	-	55,503
(130,659)	-	(130,659)
(63,162)	-	(63,162)
(1,668,551)	-	(1,668,551)
-	283,351	283,351
(1,668,551)	283,351	(1,385,200)
1,047,943	-	1,047,943
287,205	-	287,205
303,072	-	303,072
44,711	20,632	65,343
1,682,931	20,632	1,703,563
14,380	303,983	318,363
1,974,097	2,741,704	4,715,801
-	(381,140)	(381,140)
1,974,097	2,360,564	4,334,661
\$ 1,988,477	\$ 2,664,547	\$ 4,653,024

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

TOWN OF NEWPORT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	<u>General</u>	<u>Fire and Rescue District Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and cash equivalents	\$ 722,984	\$ 191,438	\$ 914,422
Property taxes receivable	28,759	-	28,759
Intergovernmental receivable	197,748	-	197,748
Accounts receivable	33,206	22,500	55,706
Total assets	<u>\$ 982,697</u>	<u>\$ 213,938</u>	<u>\$ 1,196,635</u>
Liabilities:			
Accounts payable and accrued liabilities	\$ 17,737	\$ 17,908	\$ 35,645
Deferred revenue	43,651	-	43,651
Total liabilities	<u>61,388</u>	<u>17,908</u>	<u>79,296</u>
Fund Balances:			
Reserved by State statute	216,062	22,500	238,562
Reserved for highways and streets - Powell Bill	181,013	-	181,013
Unreserved:			
Undesignated, General Fund	524,234	-	524,234
Undesignated, Special Revenue Fund	-	173,530	173,530
Total fund balances	<u>921,309</u>	<u>196,030</u>	1,117,339
Total liabilities and fund balances	<u>\$ 982,697</u>	<u>\$ 213,938</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.	1,059,707
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(232,220)
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.	<u>43,651</u>
Net assets of governmental activities per Exhibit A	<u>\$ 1,988,477</u>

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, 2008**

	<u>General Fund</u>	<u>Fire and Rescue District Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 795,835	\$ 249,202	\$ 1,045,037
Unrestricted intergovernmental	510,339	79,938	590,277
Restricted intergovernmental	227,106	52,290	279,396
Licenses and permits	80,962	-	80,962
Sales and services	307,447	230,291	537,738
Investment earnings	44,711	-	44,711
Miscellaneous	89,795	5,336	95,131
Total revenues	<u>2,056,195</u>	<u>617,057</u>	<u>2,673,252</u>
Expenditures:			
Current:			
General government	271,449	-	271,449
Public safety	744,444	687,741	1,432,185
Public works and streets	535,374	-	535,374
Sanitation	210,171	-	210,171
Cultural and recreation	133,828	-	133,828
Debt service:			
Principal	63,599	71,376	134,975
Interest	9,497	7,369	16,866
Total expenditures	<u>1,968,362</u>	<u>766,486</u>	<u>2,734,848</u>
Revenues over (under) expenditures	<u>87,833</u>	<u>(149,429)</u>	<u>(61,596)</u>
Other Financing Sources (Uses):			
Transfers in	-	195,000	195,000
Transfers out	<u>(195,000)</u>	<u>-</u>	<u>(195,000)</u>
Total other financing sources (uses)	<u>(195,000)</u>	<u>195,000</u>	<u>-</u>
Net change in fund balances	(107,167)	45,571	(61,596)
Fund Balances:			
Beginning of year, July 1	<u>1,028,476</u>	<u>150,459</u>	<u>1,178,935</u>
End of year, June 30	<u>\$ 921,309</u>	<u>\$ 196,030</u>	<u>\$ 1,117,339</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
AND CHANGES IN FUND BALANCES - GOVERNMENTAL ACTIVITIES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

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)	\$ (61,596)
<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	13,105
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental fund statement.	1,250
Capital outlays are reported as expenditures in the governmental fund statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	101,727
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental fund statements.	(128,785)
Principal repayments are reported as expenditures in the governmental fund statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>88,679</u>
Total changes in net assets of governmental activities per Exhibit B	<u><u>\$ 14,380</u></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, 2008**

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 779,356	\$ 779,357	\$ 795,835	\$ 16,478
Unrestricted intergovernmental	547,500	547,500	510,339	(37,161)
Restricted intergovernmental	223,191	223,191	227,106	3,915
Licenses and permits	131,500	161,500	80,962	(80,538)
Sales and services	285,500	285,500	307,447	21,947
Investment earnings	48,000	48,000	44,711	(3,289)
Miscellaneous	9,721	91,116	89,795	(1,321)
Total revenues	<u>2,024,768</u>	<u>2,136,164</u>	<u>2,056,195</u>	<u>(79,969)</u>
Expenditures:				
Current:				
General government	284,929	284,929	271,449	13,480
Public safety	759,998	820,310	744,444	75,866
Highways and streets	559,255	612,075	535,374	76,701
Sanitation	209,000	209,000	210,171	(1,171)
Cultural and recreation	121,180	132,664	133,828	(1,164)
Debt service:				
Principal	-	-	63,599	(63,599)
Interest	76,000	76,000	9,497	66,503
Total expenditures	<u>2,010,362</u>	<u>2,134,978</u>	<u>1,968,362</u>	<u>166,616</u>
Revenues over (under) expenditures	<u>14,406</u>	<u>1,186</u>	<u>87,833</u>	<u>86,647</u>
Other Financing Sources (Uses):				
Appropriated fund balance	190,594	190,594	-	(190,594)
Transfers in	-	-	-	-
Transfers out	(205,000)	(191,780)	(195,000)	(3,220)
Total other financing sources (uses)	<u>(14,406)</u>	<u>(1,186)</u>	<u>(195,000)</u>	<u>(193,814)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(107,167)	<u>\$ (107,167)</u>
Fund Balances:				
Beginning of year, July 1			<u>1,028,476</u>	
End of year, June 30			<u>\$ 921,309</u>	

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

Exhibit F

Fire and Rescue District Special Revenue Fund			
Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
Original	Final		
\$ 301,729	\$ 241,500	\$ 249,202	\$ 7,702
105,000	105,000	79,938	(25,062)
-	52,290	52,290	-
-	-	-	-
193,000	213,000	230,291	17,291
-	-	-	-
2,500	2,500	5,336	2,836
<u>602,229</u>	<u>614,290</u>	<u>617,057</u>	<u>2,767</u>
-	-	-	-
762,804	774,865	687,741	87,124
-	-	-	-
-	-	-	-
-	-	-	-
27,056	27,056	71,376	(44,320)
7,369	7,369	7,369	-
<u>797,229</u>	<u>809,290</u>	<u>766,486</u>	<u>42,804</u>
<u>(195,000)</u>	<u>(195,000)</u>	<u>(149,429)</u>	<u>45,571</u>
-	-	-	-
195,000	195,000	195,000	-
-	-	-	-
<u>195,000</u>	<u>195,000</u>	<u>195,000</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	45,571	<u>\$ 45,571</u>
		<u>150,459</u>	
		<u>\$ 196,030</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, 2008

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 408,453
Accounts receivable, net	225,467
Cash and cash equivalents, restricted	<u>712,027</u>
Total current assets	<u>1,345,947</u>
Noncurrent assets:	
Land	226,764
Construction in progress	1,108,033
Capital assets, net	<u>4,302,890</u>
Total noncurrent assets	<u>5,637,687</u>
Total assets	<u>6,983,634</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	11,753
Compensated absences - current portion	5,000
Current portion of long-term debt	133,246
Customer deposits	<u>73,440</u>
Total current liabilities	<u>223,439</u>
Noncurrent liabilities:	
Compensated absences payable	10,709
Other long term debt	<u>4,084,939</u>
Total noncurrent liabilities	<u>4,095,648</u>
Total liabilities	<u>4,319,087</u>
Net Assets:	
Invested in capital assets, net of related debt	3,064,029
Unrestricted	<u>(399,482)</u>
Total net assets	<u>\$ 2,664,547</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, 2008**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 1,381,549
Impact fees	57,625
Miscellaneous revenue	13,962
Total operating revenues	<u>1,453,136</u>
Operating Expenses:	
Salaries and benefits	418,279
Supplies, maintenance, and administration	482,721
Depreciation	142,000
Total operating expenses	<u>1,043,000</u>
Operating income (loss)	<u>410,136</u>
Nonoperating Revenues (Expenses):	
Interest income	20,632
Interest expense and fiscal charges	<u>(152,724)</u>
Total nonoperating revenues (expenses)	<u>(132,092)</u>
Income (loss) before transfers and capital contributions	278,044
Capital contributions - grant	<u>25,939</u>
Change in net assets	<u>303,983</u>
Net Assets:	
Beginning of year, July 1 - as previously stated	2,741,704
Prior period adjustment	<u>(381,140)</u>
Beginning of year, July 1 - as restated	<u>2,360,564</u>
End of year, June 30	<u><u>\$ 2,664,547</u></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, 2008

	<u>Enterprise Fund</u>
	<u>Water Fund</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 1,269,244
Cash paid for goods and services	(524,741)
Cash paid to employees	(416,939)
Net cash provided (used) by operating activities	<u>327,564</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(245,656)
Capital contributions - grants	25,939
Proceeds from issuance of notes payable	1,700,000
Principal paid on long term debt	(132,247)
Repayment of anticipation loan	(900,000)
Interest paid on long term debt	(152,724)
Net cash provided (used) for capital and related financing activities	<u>295,312</u>
Cash Flows From Investing Activities:	
Interest received from investments	<u>20,632</u>
Net increase (decrease) in cash and cash equivalents	643,508
Cash and Cash Equivalents - Beginning of Year	<u>476,972</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,120,480</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 410,136
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	142,000
Changes in assets and liabilities:	
Increase (decrease) accounts receivable	(121,580)
Increase (decrease) trade accounts payable and accrued liabilities	(40,680)
Increase (decrease) customer deposits	(62,312)
Net cash provided (used) by operating activities	<u>\$ 327,564</u>

Summary of Noncash Activities:

Construction in progress was overstated by \$381,140 in the prior year and the error was corrected in the current year.

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, 2008

1. Summary of Significant Accounting Policies

A. Nature of Operations

The financial statements of the Town of Newport, North Carolina 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 of Newport 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 nonfiduciary 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, 2008

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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Major Funds

The General Fund, Fire and Rescue District Special Revenue Fund, and Water/Sewer Fund are the major funds of the Town for the year ended June 30, 2008. 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/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, 2008

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 the procedures for the assessment and collection of property taxes on all 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 registered motor vehicles on behalf of all municipalities and special tax districts in the county, including the Town of Newport. For motor vehicles registered, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in the Town of Newport from March 2007 through February 2008 apply to the fiscal year ended June 30, 2008. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenue. Those taxes for vehicles registered from March 1 through the fiscal year-end apply to the subsequent fiscal year and are not shown as receivables at June 30, 2008.

Sales taxes collected and held by the State at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other revenue considered susceptible to accrual includes grant revenue in which related expenditures have already been incurred, interest revenue, and charges for services. Licenses, fines, permits and other revenue are not susceptible to accrual because they are generally not measurable until received in cash.

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, 2008

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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating 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 nonoperating 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, 2008

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 General, 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, 2008.

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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

Investments

State law [G.S. 159-30 (c)] authorize 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.

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, 2007. 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 \$2,825.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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 & Sewer Enterprise Fund</u>
Garbage fees receivable	\$ 4,000	\$ -
Water receivable	-	17,000
Sewer receivable	-	17,000
	<u>\$ 4,000</u>	<u>\$ 34,000</u>

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 \$5,000 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 includes assets purchased after July 1, 2005.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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

	<u>Years</u>
Water and sewer system plants	40
Buildings	40
Equipment and fixtures	7
Vehicles	6
Computer equipment	3

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'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 nonvesting 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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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.

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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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 noninterest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town 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 under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town 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.

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

At June 30, 2008, the Town's deposits had a carrying amount of \$1,621,825 and a bank balance of \$1,705,839, of which \$100,000 was covered by federal depository insurance and \$1,605,839 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, 2008, the Town had \$413,077 invested with North Carolina Capital Management Trust in the cash portfolio, which carried a credit rating of AAAM by Standard & Poor's as of June 30, 2008. The Town has no policy regarding credit risk.

Intergovernmental Receivables

Intergovernmental receivables consisted of the following at June 30, 2008:

Sales tax	\$ 75,000
Utility franchise tax	45,000
Due from Craven County	51,762
Sales tax refund	<u>25,986</u>
	<u>\$ 197,748</u>

TOWN OF NEWPORT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Capital Assets

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
By Type:				
NonDepreciable Capital Assets:				
Land	\$ 152,637	\$ -	\$ -	\$ 152,637
Depreciable Capital Assets:				
Buildings and improvements	968,861	-	-	968,861
Computer equipment	26,291	-	-	26,291
Equipment	271,927	98,787	(7,470)	363,244
Furniture and fixtures	37,249	-	-	37,249
Vehicles	1,224,700	8,008	(9,750)	1,222,958
Total depreciable capital assets	<u>2,529,028</u>	<u>106,795</u>	<u>(17,220)</u>	<u>2,618,603</u>
Less Accumulated Depreciation:				
Buildings and improvements	387,752	24,222	-	411,974
Computer equipment	23,602	1,698	-	25,300
Equipment	175,759	26,659	(2,402)	200,016
Furniture and fixtures	37,249	-	-	37,249
Vehicles	970,538	76,206	(9,750)	1,036,994
Total accumulated depreciation	<u>1,594,900</u>	<u>\$ 128,785</u>	<u>\$ (12,152)</u>	<u>1,711,533</u>
Depreciable capital assets, net	<u>934,128</u>			<u>907,070</u>
Capital assets, net	<u>\$ 1,086,765</u>			<u>\$ 1,059,707</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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

Governmental Activities:	
General government	\$ 23,181
Public safety	55,378
Highways and streets	28,333
Cultural and recreational	<u>21,893</u>
Total	<u>\$ 128,785</u>

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

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Water and Sewer Fund:				
NonDepreciable Capital Assets:				
Land and improvements	\$ 226,764	\$ -	\$ -	\$ 226,764
Construction in progress	<u>832,563</u>	<u>275,470</u>	-	<u>1,108,033</u>
Total non-depreciable capital assets	<u>1,059,327</u>	<u>275,470</u>	-	<u>1,334,797</u>
Depreciable Capital Assets:				
Equipment	231,959	31,820	-	263,779
Plant and distribution system	8,232,770	-	-	8,232,770
Vehicles	<u>56,351</u>	-	-	<u>56,351</u>
Total depreciable capital assets	<u>8,521,080</u>	<u>31,820</u>	-	<u>8,552,900</u>
Less Accumulated Depreciation:				
Equipment	112,290	13,040	-	125,330
Plant and distribution system	3,949,816	125,600	-	4,075,416
Vehicles	<u>45,904</u>	<u>3,360</u>	-	<u>49,264</u>
Total accumulated depreciation	<u>4,108,010</u>	<u>\$ 142,000</u>	<u>\$ -</u>	<u>4,250,010</u>
Depreciable capital assets, net	<u>4,413,070</u>			<u>4,302,890</u>
Capital assets, net	<u>\$ 5,472,397</u>			<u>\$ 5,637,687</u>

The beginning balance of Construction in Progress was restated to correct an error of \$381,140.

TOWN OF NEWPORT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

B. Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2008 were as follows:

<u>Type of Payable</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Trade payables	\$ 32,116	\$ 10,794	\$ 42,910
Accrued salaries and fringes	3,529	959	4,488
Total	<u>\$ 35,645</u>	<u>\$ 11,753</u>	<u>\$ 47,398</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description

The Town of Newport 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 Local Governmental Employees' Retirement System 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 of Newport are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2006, 2007 and 2008 were \$124,488, \$134,723, 142,034, 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, 2008

Law Enforcement Officers' Special Separation Allowance

Plan Description

The Town of Newport 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.

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. The Town also contributes three percent of each employee's salary who is not a law enforcement officer. Employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008, were \$81,855, which consisted of \$46,208 from the Town and \$35,647 from the employees.

TOWN OF NEWPORT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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	\$ 28,759	\$ -
Garbage fees receivable	<u>14,892</u>	<u>-</u>
	<u>\$ 43,651</u>	<u>\$ -</u>

Long-Term Obligations

Notes Payable

Governmental Activities Long-Term Debt

4.96% note, payable in annual installments of \$34,272 including interest, with a final payment due in fiscal year 2010, secured by fire truck	\$ 63,762
5.47% note, payable in annual installments of \$11,360 including interest, with a final payment due in fiscal year 2011, secured by land	30,665
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>93,333</u>
Total installment notes payable - governmental activities	<u>\$ 187,760</u>

TOWN OF NEWPORT, NORTH CAROLINA

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

The future minimum payments of the governmental activities long-term notes payable as of June 30, 2008 are as follows:

	Principal	Interest	Total
2009	\$ 50,125	\$ 10,907	\$ 61,032
2010	52,198	8,227	60,425
2011	20,104	5,442	25,546
2012	9,333	4,247	13,580
2013	9,333	3,640	12,973
2014-2018	46,667	9,100	55,767
Total	\$ 187,760	\$ 41,563	\$ 229,323

Long-Term Debt

Enterprise Fund

Installment Notes Payable

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	\$ 1,462,500
4.50% note, payable in annual principal installments of \$18,000-\$72,000 and semi-annual interest payments through fiscal year November 2048 secured by plant and equipment	1,700,000
5.75% note, payable in annual principal installments of \$7,246 including interest through 2025; secured system assets	<u>123,185</u>
Total Enterprise Fund notes payable	<u>\$ 3,285,685</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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 \$ 932,500

Maturities of long-term debt in the five years subsequent to June 30, 2008, are as follows:

	Installment Notes Payable			Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 119,746	\$ 121,608	\$ 241,354	\$ 13,500	\$ 48,956	\$ 62,456
2010	137,746	117,558	255,304	14,000	48,956	62,956
2011	138,746	114,115	252,861	14,500	47,513	62,013
2012	139,746	109,918	249,664	15,500	46,751	62,251
2013	140,746	105,677	246,423	16,500	45,938	62,438
2014-2018	718,731	463,183	1,181,914	93,000	215,959	308,959
2019-2023	524,731	352,866	877,597	116,000	189,263	305,263
2024-2028	201,492	289,160	490,652	145,500	155,951	301,451
2029-2033	235,000	241,650	476,650	184,000	113,925	297,925
2034-2038	290,000	184,095	474,095	200,000	63,000	263,000
2039-2043	351,000	112,860	463,860	120,000	12,600	132,600
2044-2047	288,000	32,400	320,400	-	-	-
Total	<u>\$ 3,285,685</u>	<u>\$ 2,245,090</u>	<u>\$ 5,530,775</u>	<u>\$ 932,500</u>	<u>\$ 988,811</u>	<u>\$ 1,921,311</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Notes payable	\$ 279,039	\$ -	\$ (91,279)	\$ 187,760	\$ 50,125
Accrued vacation pay	43,210	6,250	(5,000)	44,460	5,000
Total	<u>\$ 322,249</u>	<u>\$ 6,250</u>	<u>\$ (96,279)</u>	<u>\$ 232,220</u>	<u>\$ 55,125</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 limit as of June 30, 2008, amounts to approximately \$23,900,000.

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Bonds payable	\$ 945,000	\$ -	\$ (12,500)	\$ 932,500	\$ 13,500
Notes payable	2,605,432	800,000	(119,747)	3,285,685	119,746
Compensated absences	14,369	6,340	(5,000)	15,709	5,000
	<u>\$ 3,564,801</u>	<u>\$ 806,340</u>	<u>\$ (137,247)</u>	<u>\$ 4,233,894</u>	<u>\$ 138,246</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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.

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2008, consisted of the following:

	<u>Amount</u>
From the General Fund to the Fire and Rescue District fund to fund operations.	<u>\$ 195,000</u>

TOWN OF NEWPORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2008

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, 2008 as follows:

<u>Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Sanitation	\$ 209,000	\$ 210,171	\$ (1,171)
Library	71,180	79,368	(8,188)
Transfers out	(191,780)	(195,000)	(3,220)

4. Prior Period Adjustment

In 2007, construction in progress in the Water and Sewer Fund was overstated by \$381,140 due to duplicate reporting of Water and Sewer Capital project activity. The prior period error was corrected by reducing Net Assets and Construction in Progress beginning balances \$381,140.

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, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2008</u>			<u>2007</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Revenues:				
Taxes:				
Ad Valorem Taxes:				
Current year property tax	\$ 711,501	\$ 717,710	\$ 6,209	\$ 590,803
Motor vehicle tax - current and delinquent	65,856	76,801	10,945	87,564
Prior years property tax	2,000	1,324	(676)	4,538
Total ad valorem taxes	<u>779,357</u>	<u>795,835</u>	<u>16,478</u>	<u>682,905</u>
Unrestricted Intergovernmental Revenues:				
Franchise tax	140,000	193,628	53,628	159,140
Beer and wine tax	15,375	17,205	1,830	16,613
Local option sales tax	388,125	287,205	(100,920)	313,889
Carteret County ABC revenues	4,000	12,301	8,301	4,815
Total unrestricted intergovernmental revenues	<u>547,500</u>	<u>510,339</u>	<u>(37,161)</u>	<u>494,457</u>
Restricted Intergovernmental Revenues:				
Powell Bill	121,900	126,606	4,706	112,147
Federal, State and local grants	101,291	100,500	(791)	151,961
Total restricted intergovernmental revenues	<u>223,191</u>	<u>227,106</u>	<u>3,915</u>	<u>264,108</u>
Licenses and Permits:				
Building permits	65,000	65,152	152	104,840
Privilege license	6,000	8,302	2,302	8,199
Impact/facility fee charges	56,500	3,375	(53,125)	-
Cable franchise fees	34,000	4,133	(29,867)	28,623
Total licenses and permits	<u>161,500</u>	<u>80,962</u>	<u>(80,538)</u>	<u>141,662</u>
Sales and Services:				
Commission - trash stickers	4,500	7,280	2,780	8,240
Contribution from recreation	1,000	-	(1,000)	875
Fees for garbage pickup	235,000	254,894	19,894	227,441
School resource officer fees	45,000	45,273	273	45,273
Total sales and services	<u>285,500</u>	<u>307,447</u>	<u>21,947</u>	<u>281,829</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, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2008</u>			<u>2007</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Interest:				
Investment earnings	48,000	44,711	(3,289)	45,343
Miscellaneous Revenue:				
Court facility fee and refunds	3,000	1,930	(1,070)	3,433
Sale of capital assets	55,000	56,758	1,758	-
Miscellaneous	33,116	31,107	(2,009)	6,634
Total miscellaneous	91,116	89,795	(1,321)	10,067
Total revenues	2,136,164	2,056,195	(79,969)	1,920,371
Expenditures:				
Current:				
General Government:				
Governing Body:				
Fees paid to elected officials	19,125	19,210	(85)	18,931
Operating expenses	62,200	57,280	4,920	63,577
Total governing body	81,325	76,490	4,835	82,508
Administration:				
Salaries and benefits	153,898	147,931	5,967	124,662
Operating expenses	46,206	43,912	2,294	54,822
Capital outlay	3,500	3,116	384	7,080
Total administration	203,604	194,959	8,645	186,564
Total general government	284,929	271,449	13,480	269,072
Public Safety:				
Police:				
Salaries and benefits	428,252	408,502	19,750	398,370
Operating expenses	221,257	190,176	31,081	144,781
Capital outlay	14,725	14,725	-	8,814
Total police	664,234	613,403	50,831	551,965

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, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008			2007
	Budget	Actual	Variance Over/Under	Actual
Officers' Special Separation Allowance				
Salaries and benefits	13,221	1,101	12,120	13,220
Planning and Inspections:				
Salaries and benefits	104,743	101,314	3,429	125,858
Operating expenses	25,712	15,870	9,842	43,868
Capital outlay	12,400	12,756	(356)	3,716
Reimbursement - proprietary funds	-	-	-	(31,750)
Total planning and inspections	142,855	129,940	12,915	141,692
Total public safety	820,310	744,444	75,866	706,877
Public Works and Streets:				
Public Works:				
Salaries and benefits	156,756	146,332	10,424	155,511
Operating expenses	90,550	47,562	42,988	118,496
Capital outlay	12,000	10,938	1,062	9,822
Total public works	259,306	204,832	54,474	283,829
Fleet Maintenance:				
Salaries and benefits	22,264	23,200	(936)	-
Operating expenses	110,118	105,197	4,921	-
Capital outlay	5,300	(530)	5,830	-
Total fleet maintenance	137,682	127,867	9,815	-
Powell Bill Funds:				
Salaries and benefits	65,945	61,986	3,959	56,794
Operating expenses	18,422	15,163	3,259	16,032
Capital outlay	70,720	68,517	2,203	72,026
Total Powell Bill funds	155,087	145,666	9,421	144,852
Non-Powell Bill Funds:				
Operating expenses	60,000	57,009	2,991	54,740
Total highways and streets	612,075	535,374	76,701	483,421

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, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007**

	<u>2008</u>			<u>2007</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
Sanitation:				
Operating expenses	209,000	210,171	(1,171)	195,433
Total sanitation	<u>209,000</u>	<u>210,171</u>	<u>(1,171)</u>	<u>195,433</u>
Cultural and Recreation:				
Cultural:				
Library operations	71,180	79,368	(8,188)	79,294
Recreation:				
Special projects	10,000	9,513	487	5,701
Operating expenses	51,484	44,947	6,537	26,594
Total recreation	<u>61,484</u>	<u>54,460</u>	<u>7,024</u>	<u>32,295</u>
Total cultural and recreation	<u>132,664</u>	<u>133,828</u>	<u>(1,164)</u>	<u>111,589</u>
Debt Service:				
Principal	-	63,599	-	64,889
Interest	-	9,497	-	8,571
Total debt service	<u>76,000</u>	<u>73,096</u>	<u>2,904</u>	<u>73,460</u>
Total expenditures	<u>2,134,978</u>	<u>1,968,362</u>	<u>166,616</u>	<u>1,839,852</u>
Revenue over (under) expenditures	<u>1,186</u>	<u>87,833</u>	<u>86,647</u>	<u>80,519</u>
Other Financing Sources (Uses):				
Transfers out	(191,780)	(195,000)	(3,220)	(220,000)
Appropriated fund balance	190,594	-	(190,594)	-
Total other financing sources (uses)	<u>(1,186)</u>	<u>(195,000)</u>	<u>(193,814)</u>	<u>(220,000)</u>
Net change in fund balances	<u>\$ -</u>	<u>(107,167)</u>	<u>\$ (107,167)</u>	<u>(139,481)</u>
Fund Balance:				
Beginning of year, July 1		<u>1,028,476</u>		<u>1,167,957</u>
End of year, June 30		<u>\$ 921,309</u>		<u>\$ 1,028,476</u>

TOWN OF NEWPORT, NORTH CAROLINA

FIRE AND RESCUE DISTRICT - MAJOR SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008		Variance Over/Under	2007
	Budget	Actual		Actual
Revenues:				
Ad valorem taxes	\$ 241,500	\$ 249,202	\$ (7,702)	\$ 200,034
Local option sales tax	105,000	79,938	25,062	81,031
Ambulance transport fees	213,000	230,291	(17,291)	206,083
Grant revenues	52,290	52,290	-	89,965
Miscellaneous income	2,500	5,336	(2,836)	9,936
Total revenues	<u>614,290</u>	<u>617,057</u>	<u>(2,767)</u>	<u>587,049</u>
Expenditures:				
Public Safety:				
Salaries and benefits	443,408	421,861	21,547	353,840
Operating expenses	239,733	177,283	62,450	265,541
Capital outlay	91,724	88,597	3,127	610
Total public safety	<u>774,865</u>	<u>687,741</u>	<u>87,124</u>	<u>619,991</u>
Debt Service:				
Principal	27,056	71,376	44,320	26,904
Interest	7,369	7,369	-	56,149
Total debt service	<u>34,425</u>	<u>78,745</u>	<u>44,320</u>	<u>83,053</u>
Total expenditures	<u>809,290</u>	<u>766,486</u>	<u>30,743</u>	<u>703,044</u>
Revenues over (under) expenditures	<u>(195,000)</u>	<u>(149,429)</u>	<u>45,571</u>	<u>(115,995)</u>
Other Financing Sources (Uses):				
Transfer from General Fund	<u>195,000</u>	<u>195,000</u>	<u>-</u>	<u>220,000</u>
Total other financing sources (uses)	<u>195,000</u>	<u>195,000</u>	<u>-</u>	<u>220,000</u>
Net change in fund balances	<u>\$ -</u>	45,571	<u>\$ 45,571</u>	104,005
Fund Balance:				
Beginning of year - July 1		<u>150,459</u>		<u>46,226</u>
End of year - June 30		<u>\$ 196,030</u>		<u>\$ 150,231</u>

TOWN OF NEWPORT, NORTH CAROLINA

ENTERPRISE FUND - WATER AND SEWER
 SCHEDULE OF REVENUES, EXPENDITURES AND
 OTHER FINANCING SOURCES (USES) -
 BUDGET AND ACTUAL, (NON-GAAP)
 FOR THE YEAR ENDED JUNE 30, 2008
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007

	2008			2007
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Operating Revenues:				
Charges for sales and services:				
Water charges	\$ 1,288,700	\$ 1,381,549	\$ 92,849	\$ 927,646
Miscellaneous	5,000	13,962	8,962	5,372
Total operating revenues	1,293,700	1,395,511	101,811	933,018
Nonoperating Revenues:				
Impact fees	239,250	57,625	(181,625)	305,000
Interest income	20,000	20,632	632	26,130
Total nonoperating revenues	259,250	78,257	(180,993)	331,130
Total revenues	1,552,950	1,473,768	(79,182)	1,264,148
Operating Expenditures:				
Salaries and employee benefits		418,279		411,975
Supplies, maintenance, and administration		361,542		433,059
Capital outlay		148,740		96,450
Total operating expenditures	1,260,689	928,561	332,128	941,484
Debt service:				
Principal repayment	-	132,247		205,300
Interest	-	153,804		64,823
Total debt service	288,408	286,051	2,357	270,123
Total expenditures	1,549,097	1,214,612	334,485	1,211,607
Revenues over (under) expenditures	3,853	259,156	255,303	52,541
Other Financing Sources (Uses):				
Contingency	(3,853)	-	3,853	-
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	259,156	\$ 259,156	\$ 52,541
Reconciliation of Modified Accrual Basis with Accrual Basis:				
Depreciation		(142,000)		
Capital contributions - capital projects		25,939		
Principal payment		132,247		
Capital outlay, capitalized		28,641		
Change in net assets		\$ 303,983		

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, 2008

	Project Authorization	Actual		Total
		Prior Years	Current Year	
Revenues:				
Restricted intergovernmental revenues	\$ 250,000	\$ 92,921	\$ 25,939	\$ 118,860
Expenditures:				
Sewer rehabilitation		49,582	260	49,842
Capital outlay - Sewer plant improvements		9,880	23	9,903
Engineering and administrative fees		677,273	14,917	692,190
Re-use water		95,828	260,270	356,098
Total expenditures	2,300,000	832,563	275,470	1,108,033
Revenues over (under) expenditures	(2,050,000)	(739,642)	(249,531)	(989,173)
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	250,000	-	-	-
Total other financing sources (uses)	2,050,000	900,000	801,080	1,701,080
Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 160,358	\$ 551,549	\$ 711,907

TOWN OF NEWPORT, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2008

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2007</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2008</u>
2007-2008	\$ -	\$ 804,553	\$ 785,108	\$ 19,445
2006-2007	21,356	-	15,215	6,141
2005-2006	4,894	-	290	4,604
2004-2005	363	-	-	363
2003-2004	373	-	117	256
2002-2003	706	-	553	153
2001-2002	371	-	-	371
2000-2001	339	-	205	134
1999-2000	195	-	78	117
1998-1999	81	-	81	-
	<u>\$ 28,678</u>	<u>\$ 804,553</u>	<u>\$ 801,647</u>	31,584
Less allowance for uncollectible ad valorem taxes receivable:				<u>(2,825)</u>
Ad Valorem Taxes Receivable, Net				<u>\$ 28,759</u>
Reconciliation with Revenues:				
Taxes, Ad valorem, General Fund				\$ 795,835
Penalties and interest				(2,489)
Miscellaneous adjustments				8,220
Arrears written off for tax year 1998-1999 per statute of limitations				<u>81</u>
Total collections and credits				<u>\$ 801,647</u>

TOWN OF NEWPORT, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 268,898,781	\$ 0.27	\$ 723,106	\$ 723,106	\$ -
Utility levy	3,241,553	0.27	8,752	8,752	-
Motor vehicle levy	27,612,222	0.27	74,553	-	74,553
Discoveries	592,222	0.27	1,599	1,599	-
Abatements	(1,280,370)	0.27	(3,457)	(3,457)	-
Total property valuation	<u>\$ 299,064,408</u>				
Net Levy			804,553	730,000	74,553
Uncollected taxes at June 30, 2008			<u>19,445</u>	<u>5,286</u>	<u>14,159</u>
Current Year's Taxes Collected			<u>\$ 785,108</u>	<u>\$ 724,714</u>	<u>\$ 60,394</u>
Current Levy Collection Percentage			<u>97.58%</u>	<u>99.28%</u>	<u>81.01%</u>
Prior Year Levy Collection Percentage			<u>96.87%</u>	<u>99.66%</u>	<u>78.97%</u>