TOWN OF KURE BEACH
Kure Beach, North Carolina

FINANCIAL STATEMENTS
Year Ended June 30, 2008

TOWN OF KURE BEACH

Kure Beach, North Carolina

BOARD OF COMMISSIONERS

James M. Dugan

Alan Lambeth

Jim Vatrt

Barry Nelder

ADMINISTRATIVE OFFICERS

Mac Montgomery
Mayor

Susan Suggs
Finance Officer

Nancy Avery
Town Clerk

Town Of Kure Beach, North Carolina
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June 30, 2008

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Financial Section

Thompson · Price
Scott · Adams & Co PA

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Wilmington, North Carolina 28403
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Kure Beach, North Carolina, as of and for the year ended June 30, 2008, which collectively comprises the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Kure Beach'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 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kure Beach, 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 for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2008 on our consideration of Town of Kure Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Kure Beach, North Carolina. The combining, and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Thompson, Price, Scott, Adams & Co., P.A.

Thompsoh, Price, Scott, Adams & Co., P.A.
October 25, 2008

Town of Kure Beach
Management's Discussion and Analysis
June 30, 2008

As management of the Town of Kure Beach, we offer readers of the Town of Kure Beach's financial statements this narrative overview and analysis of the financial activities of the Town of Kure Beach for the fiscal year ended June 30, 2008. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

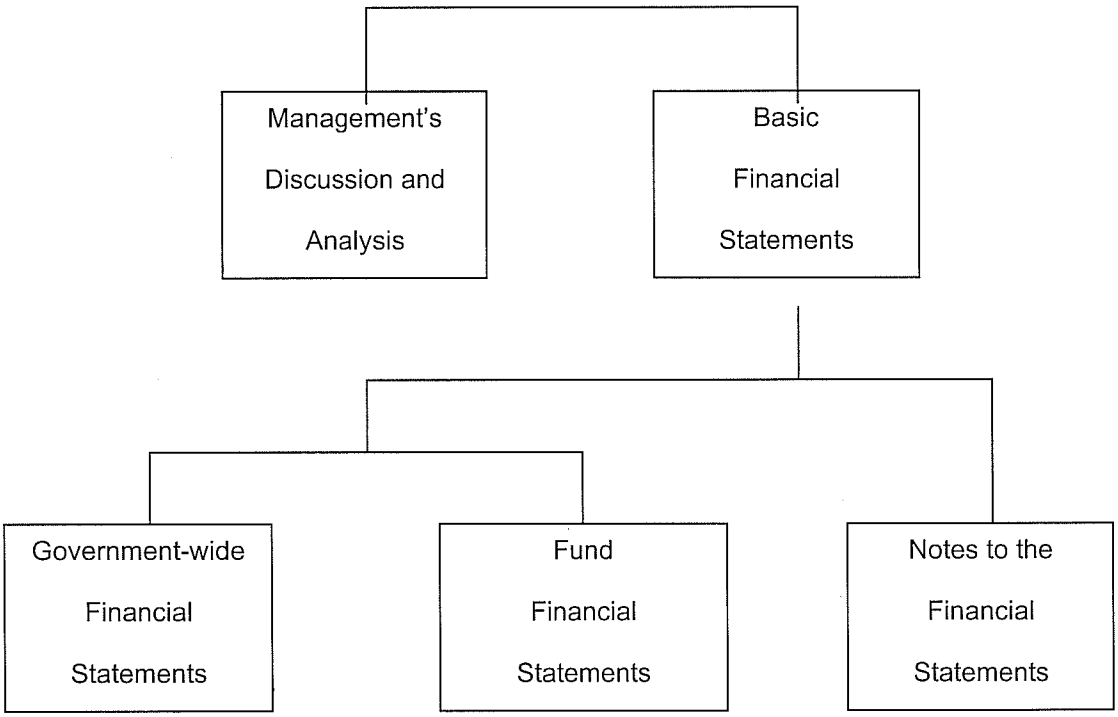
Financial Highlights

- The assets of the Town of Kure Beach exceeded its liabilities at the close of the fiscal year by $9,693,890.
- The government's net assets at the year ending June 30, 2008 were $4,389,385 for governmental type activities and $5,304,505 business type activities.
- As of the close of the current fiscal year, the Town of Kure Beach's governmental funds reported an ending fund balance of $1,530,462. Approximately 58% percent of this total amount, or $667,690, 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 $1,154,784 or 38% of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Kure Beach's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Kure Beach.

Required Components of Annual Financial Report
Figure 1



Summary----------->Detail

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 8) 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, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Kure Beach.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Kure Beach, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Kure Beach can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Kure Beach adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Fund – Town of Kure Beach has one kind of proprietary fund. *Enterprise Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Kure Beach uses an enterprise fund to account for its water and sewer fund activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

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 immediately follow exhibit 8 of the audit report.

Government-Wide Financial Analysis

The Town of Kure Beach's Net Assets
Figure 2

	Governmental Activities		Business-Type Activites		Totals	
	2007	2008	2007	2008	2007	2008
Current and other assets	$ 2,112,782	$ 1,738,216	$ 986,047	$ 1,025,423	$ 3,098,829	$ 2,763,639
Capital assets/Restricted assets	3,905,990	7,316,574	5,515,194	5,650,902	9,421,184	12,967,476
Total assets	6,018,772	9,054,790	6,501,241	6,676,325	12,520,013	15,731,115
Long-term liabilities outstanding	1,291,740	4,487,970	1,111,821	1,182,908	2,403,561	5,670,878
Other liabilities	194,852	177,435	325,568	188,912	520,420	366,347
Total liabilities	1,486,592	4,665,405	1,437,389	1,371,820	2,923,981	6,037,225
Net assets:						
Invested in capital assets, net of related debt	2,817,497	2,899,380	4,233,670	4,495,558	7,051,167	7,394,938
Restricted	53,247	115,901	-		53,247	115,901
Unrestricted	1,661,436	1,374,104	830,182	808,947	2,491,618	2,183,051
Total net assets	$ 4,532,180	$ 4,389,385	$ 5,063,852	$ 5,304,505	$ 9,596,032	$ 9,693,890

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Kure Beach exceeded liabilities by $9,693,890 at June 30, 2008. The Town's net assets for governmental activities and business type activities were $4,389,385 and $5,304,505 respectively for the fiscal year ended June 30, 2008. However, the largest portion $7,394,938 reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Kure Beach uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Kure Beach's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Kure Beach's net assets of $115,901 represents resources that are subject to external restrictions on how they may be used. The remaining balance of $2,183,051 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.03%.

Town of Kure Beach Change in Net Assets

Figure 3

	Governmental Activities 2007	Governmental Activities 2008	Business Type Activities 2007	Business Type Activities 2008	Total 2007	Total 2008
Revenues:						
Program revenues:						
Charges for services	$ 441,087	$ 414,630	$ 1,110,494	$ 1,556,661	$ 1,551,581	$ 1,971,291
Operating grants and contributions	204,156	154,802	-		204,156	154,802
Capital grants and contributions	-	500,000	-		-	500,000
General revenues:					-	-
Property taxes	1,235,330	1,616,672	-		1,235,330	1,616,672
Other taxes	777,632	647,501	-		777,632	647,501
Grants and contributions not restricted					-	-
to specific programs	-		-		-	-
Other	71,380	56,896	142,599	19,653	213,979	76,549
Total revenues	2,729,585	3,390,501	1,253,093	1,576,314	3,982,678	4,966,815
Expenses:						
General government	568,216	588,797	-		568,216	588,797
Public safety	1,249,612	1,382,345	-		1,249,612	1,382,345
Highways/streets	164,440	15,417	-		164,440	15,417
Environmental Protection	953,416	932,200	-		953,416	932,200
Economic development	-	499,922	-		-	499,922
Special Development	115,661	58,481	-		115,661	58,481
Cultural and recreation	-		-		-	-
Interest on long-term debt	43,849	56,136	-		43,849	56,136
Water and sewer	-		1,632,787	1,335,661	1,632,787	1,335,661
Other	-		-		-	-
Total expenses	3,095,194	3,533,298	1,632,787	1,335,661	4,727,981	4,868,959
Increase in net assets before transfers	(365,609)	(142,797)	(379,694)	240,653	(745,303)	97,856
Transfers	-		-		-	-
Increase in net assets	(365,609)	(142,797)	(379,694)	240,653	(745,303)	97,856
Net assets, July 1	4,897,789	4,532,182	5,443,546	5,063,852	10,341,335	9,596,034
Net assets, June 30	$ 4,532,180	$ 4,389,385	$ 5,063,852	$ 5,304,505	$ 9,596,032	$ 9,693,890

Governmental activities. Governmental activities of the Town reported $4,389,385 in net assets. Key elements of this decrease are as follows:

- Increased expenditures

Business-type activities: Business-type activities of the Town reported $5,304,505 in net assets. Key elements of this increase are as follows:

- Reduced expenditures

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Kure Beach'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 Kure Beach'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 Kure Beach. At the end of the current fiscal year, unreserved fund balance of the General Fund was $1,154,784 while total fund balance reached $1,998,729. 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 38% of total General Fund expenditures.

At June 30, 2008, the governmental funds of Town of Kure Beach reported a fund balance of 1,530,462.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Proprietary Fund. The Town's proprietary fund provides 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 $808,947. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Kure Beach's investment in capital assets for its governmental and business type activities as of June 30, 2008, totals $12,967,476. (Net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Water Tower & Well House
- Vehicles

Town of Kure Beach's Capital Assets
Figure 4

	Activities 2007	Activities 2008	Activities 2007	Activities 2008	Total 2007	Total 2008
Land	$ 68,455	$ 3,668,455	20,697	20,697	89,152	3,689,152
Buildings and systems	155,081	127,799	4,777,318	5,397,022	4,932,399	5,524,821
Improvements other than buildings	12,849	11,284	-		12,849	11,284
Infrastructure	105,834	101,555	-		105,834	101,555
Vehicles and equipment	694,406	538,116	155,113	233,183	849,519	771,299
Construction in progress	2,869,365	2,869,365			2,869,365	2,869,365
Total	$ 3,905,990	$ 7,316,574	$ 4,953,128	$ 5,650,902	$ 8,859,118	$ 12,967,476

Additional information on the Town's capital assets can be found in the notes to the Basic Financial Statements.

Long-term Debt. As of June 30, 2008, the Town of Kure Beach had total debt outstanding of $5,568,537 Installment debt for governmental type activities and business type activities were $4,413,193 and $1,155,344 respectively.

Additional information regarding the Town of Kure Beach's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

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

- Unemployment rates remained low
- The town will benefit greatly from the water project through an increase in services provided.

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 Town Manager, 117 Settlers Lane, Kure Beach, NC 28449.

Basic Financial Statements

Town of Kure Beach, North Carolina
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,585,636	$ 729,956	$ 2,315,592
Receivables (net)	187,228	260,819	448,047
Internal balances	(34,648)	34,648	-
Total current assets	1,738,216	1,025,423	2,763,639
Non-Current Assets:			
Capital assets:			
Land, improvements, and construction in progress	6,537,820	20,697	6,558,517
Other capital assets, net of depreciation	778,754	5,630,205	6,408,959
Total capital assets	7,316,574	5,650,902	12,967,476
Total assets	$ 9,054,790	$ 6,676,325	$ 15,731,115
LIABILITIES			
Accounts payable and accrued expenses	$ 177,435	$ 180,632	$ 358,067
Customer deposits	-	8,280	8,280
Long-term liabilities:			
Due within one year	334,024	218,050	552,074
Due in more than one year	4,153,946	964,858	5,118,804
Total liabilities	4,665,405	1,371,820	6,037,225
NET ASSETS			
Invested in capital assets, net of related debt	2,903,381	4,495,558	7,398,939
Restricted for streets	115,901	-	115,901
Unrestricted (deficit)	1,370,103	808,947	2,179,050
Total net assets	$ 4,389,385	$ 5,304,505	$ 9,693,890

The notes to the financial statements are an integral part of this statement.

Kure Beach
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Town of Kure Beach, North Carolina
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental Activities:				
General government	$ 588,797	$ 130,052	$ 76,088	$ -
Public safety	1,382,345	28,303	247	-
Transportation	15,417	-	76,762	-
Economic and physical development	499,922	-	-	500,000
Environmental protection	932,200	256,275	1,705	-
Special projects	58,481	-	-	-
Interest on long-term debt	56,136	-	-	-
Total governmental activities	3,533,298	414,630	154,802	500,000
Business-type activities:				
Water and Sewer	1,335,661	1,556,661	-	-
Total business-type activities	1,335,661	1,556,661	-	-
Total Primary Government	$ 4,868,959	$ 1,971,291	$ 154,802	$ 500,000

General revenues:
Taxes:
Property taxes, levied for general purpose
Local option sales tax
Other taxes and licenses
Grants and contributions not restricted to specific programs
Investment earnings, unrestricted
Transfers
Miscellaneous, unrestricted
Total general revenues, special items, and transfers
Change in net assets

Net assets-beginning
Net assets-ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (382,657)	$ -	$ (382,657)
(1,353,795)	-	(1,353,795)
61,345	-	-
78	-	-
(674,220)	-	(674,220)
(58,481)	-	(58,481)
(56,136)	-	(56,136)
(2,463,866)	-	(2,463,866)
-	221,000	221,000
-	221,000	221,000
-	221,000	(2,242,866)
1,616,672	-	1,616,672
484,764	-	484,764
162,737	-	162,737
-	-	-
52,487	19,653	72,140
-	-	-
4,409	-	4,409
2,321,069	19,653	2,340,722
(142,797)	240,653	97,856
4,532,182	5,063,852	9,596,034
$ 4,389,385	$ 5,304,505	$ 9,693,890

The notes to the financial statements are an integral part of this statement.

Town of Kure Beach, North Carolina
Balance Sheet
Governmental Funds
June 30, 2008

	Major Funds			
	General Fund	Capital Project Fund	Total Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,472,183	$ -	$ 113,453	$ 1,585,636
Taxes receivables, net	26,342	-	-	26,342
Account receivables, net	156,311	-	598	156,909
Due from other funds	571,733	150,000	-	721,733
Total assets	$ 2,226,569	$ 150,000	$ 114,051	$ 2,490,620
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 102,406	$ 75,029	$ -	$ 177,435
Due to other funds	99,092	562,065	95,224	756,381
Deferred revenue	26,342	-	-	26,342
Total liabilities	227,840	637,094	95,224	960,158
Fund balances:				
Reserved for:				
Reserved for streets - Powell Bill	115,901	-	-	115,901
State statute	728,044	-	-	728,044
Beach renourishment	-	-	18,827	18,827
Unreserved	1,154,784	(487,094)	-	667,690
Total fund balances	1,998,729	(487,094)	18,827	1,530,462
Total Liabilities and Fund Balances	$ 2,226,569	$ 150,000	$ 114,051	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,316,574
Liabilities for earned but deferred revenues in fund statements.	26,342
Other long-term assets (accrued interest from taxes) are not available to pay current period expenditures and therfore are deferred in the funds.	3,977
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(4,487,970)
Net assets of governmental activities	$ 4,389,385

The notes to the financial statements are an integral part of this statement.

Town of Kure Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2008

	Major Funds			
	General Fund	Capital Project Fund	Total Non-Major Fund	Total Governmental Funds
REVENUES				
Ad valorem taxes	$ 1,609,749	$ -	$ -	$ 1,609,749
Other taxes and licenses	12,610	-	-	12,610
Unrestricted intergovernmental	635,108	-	-	635,108
Restricted intergovernmental	154,555	500,000	-	654,555
Permits and fees	176,095	-	-	176,095
Sales and services	242,944	-	-	242,944
Investment earnings	38,788	12,828	871	52,487
Miscellaneous	-	-	-	-
Total revenues	2,869,849	512,828	871	3,383,548
EXPENDITURES				
Current:				
General government	570,110	-	-	570,110
Public safety	1,269,723	-	-	1,269,723
Transportation	15,417	-	-	15,417
Special projects	53,963	-	-	53,963
Environmental Protection	862,187	-	12,393	874,580
Economic and physical development	-	4,099,922	-	4,099,922
Debt service	264,901	500,000	-	764,901
Total expenditures	3,036,301	4,599,922	12,393	7,648,616
Excess (deficiency) of revenues over expenditures	(166,452)	(4,087,094)	(11,522)	(4,265,068)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Installment purchase obligations issued	137,700	3,600,000	-	3,737,700
Total other financing sources and uses	137,700	3,600,000	-	3,737,700
Net change in fund balance	(28,752)	(487,094)	(11,522)	(527,368)
Fund balances-beginning	2,027,481	-	30,349	2,057,830
Fund balances-ending	$ 1,998,729	$ (487,094)	$ 18,827	$ 1,530,462

The notes to the financial statements are an integral part of this statement.

Town of Kure Beach, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances - total governmental funds	$ (527,368)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	3,410,584
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue for tax revenues	6,923
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	(4,001)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(3,028,935)
Total changes in net assets of governmental activities	$ (142,797)

The notes to the financial statements are an integral part of this statement.

Town of Kure Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2008

	General Fund			
	Original	Final	Actual Amounts	Variance With Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	$ 1,590,030	$ 1,635,780	$ 1,609,749	$ (26,031)
Other taxes and licenses	54,250	71,500	12,610	(58,890)
Unrestricted intergovernmental	623,894	611,882	635,108	23,226
Restricted intergovernmental		104,869	154,555	49,686
Permits and fees	248,500	193,725	176,095	(17,630)
Sales and services		224,807	242,944	18,137
Investment earnings	67,830	55,600	38,788	(16,812)
Miscellaneous	21,000	-	-	-
Total revenues	2,605,504	2,898,163	2,869,849	(28,314)
Expenditures				
Current:				
General government	499,819	654,383	570,110	84,273
Public safety	1,310,419	1,291,305	1,269,723	21,582
Transportation	751,689	76,653	15,417	61,236
Special projects	8,750	62,530	53,963	8,567
Environmental protection	62,580	961,661	862,187	99,474
Debt service	49,111	275,000	264,901	10,099
Total expenditures	2,682,368	3,321,532	3,036,301	285,231
Revenues over (under) expenditures	(76,864)	(423,369)	(166,452)	256,917
Other financing sources (uses):				
Proceeds from installment purchases	-	-	137,700	137,700
Transfers (to)/from	-	(37,580)	-	37,580
Fund Balance Appropriated	76,864	460,949	-	(460,949)
Total other financing sources (uses)	76,864	423,369	137,700	(285,669)
Net change in Fund Balance	$ -	$ -	(28,752)	$ (28,752)
Fund balance, Beginning			2,027,481	
Fund balance, Ending			$ 1,998,729	

The notes to the financial statements are an integral part of this statment.

Town of Kure Beach, North Carolina
Statement of Net Assets
Proprietary Fund
June 30, 2008

		Major Enterprise Fund
		Water and Sewer Fund
Assets		
Current assets:		
Cash and cash equivalents	$	729,956
Accounts Receivable (net)		254,694
Due from other funds		570,145
Other Receivable		6,125
Total		1,560,920
Capital assets (net)		5,650,902
Total assets	$	7,211,822
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$	180,632
Due to other funds		535,497
Customer deposits		8,280
Current portion of long-term debt		218,050
Total		942,459
Noncurrent liabilities:		
Compensated absences		27,564
Non-current portion of long-term debt		937,294
Total liabilities		1,907,317
Net Assets		
Invested in capital assets, net of related debt		4,495,558
Unrestricted		808,947
Total net assets	$	5,304,505

The notes to the financial are an integral part of this statement.

Town of Kure Beach, North Carolina
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	Major Enterprise Fund
	Water and Sewer Fund
Operating revenues:	
Charges for services	$ 1,520,661
Other operating revenues	36,000
Total operating revenues	1,556,661
Operating expenses:	
Administration	194,660
Water and Sewer system	928,256
Depreciation	159,176
Total operating expenses	1,282,092
Operating income	274,569
Nonoperating revenues (expenses):	
Investment earnings	19,653
Interest and fees	(53,569)
Total nonoperating revenues (expenses)	(33,916)
Net income before transfers	240,653
Transfer in (out)	-
Change in net assets	240,653
Total net assets, beginning	5,063,852
Total net assets, ending	$ 5,304,505

The notes to the financial are an integral part of this statement

Town of Kure Beach, North Carolina
Proprietary Fund
Statement of Cash Flows
For The Year Ended June 30, 2008

	Major Enterprise Fund Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	$ 852,394
Cash paid for goods and services	(655,097)
Cash paid to employees for services	(407,058)
Customer deposits net	(120)
Net cash provided by operating activities	(209,881)
Cash flows from noncapital financing activities:	
Transfers in (out)	-
Note proceeds	-
Net cash used by noncapital financing activities	-
Cash flows from capital and related financing activities:	
Note proceeds	94,069
Acquisition and construction of capital assets	(856,979)
Principal paid on bond maturities and note agreements	(220,249)
Interest and fees paid on bond maturities and notes agreements	(53,569)
Net cash used by capital and related financing activities	(1,036,728)
Cash flows from investing activities:	
Interest on investments	19,653
Net decrease in cash and cash equivalents	(1,226,956)
Balances, Beginning	1,956,912
Balances, Ending	$ 729,956

The notes to the financial statements are an intergral part of this statement.

Town of Kure Beach, North Carolina
Proprietary Fund
Statement of Cash Flows
For The Year Ended June 30, 2008

	Water Fund
Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 274,569
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	159,176
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(704,267)
Increase (decrease) in accounts payable and accrued liabilities	60,761
Increase(decrease) in deposits	(120)
Total adjustments	(484,450)
Net cash provided by operating activities	$ (209,881)

The notes to the financial statements are an intergral part of this statement.

Supplementary Statements

The section contains additional statements required by the Local Government Commission in North Carolina.

Notes to the Financial Statements

Town of Kure Beach, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2008

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Kure Beach conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Kure Beach is a municipal corporation, which is governed by an elected mayor and a four-member council.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Capital Projects Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following non-major governmental fund:

Grant Project Special Revenue Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, including special assessments and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, New Hanover 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 Kure Beach. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in New Hanover County 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 revenues.

Sales taxes collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

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 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue, and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Project Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. The Town Manager is authorized by the budget ordinance to reallocate departmental appropriations among the various expenditures within each department. The Town Manager is also authorized to effect interdepartmental transfers of minor budget amendments not to exceed ten (10) percent of the appropriated funds for the department's allocation which is being reduced. Notification of all such amendments shall be made to the Board of Commissioners at their next regular meeting following the transfer.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

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.

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

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Cash

The unexpended note proceeds of the Water and Sewer fund is classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the debt was originally obtained.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2007. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are written off using the direct write-off method.

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market.

The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories are expensed when consumed rather than when purchased.

The Town does not have any prepaid items.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Capitalization cost for the Town's assets are $500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Other assets of the Town are depreciated on a class life basis at the following rates:

Asset Class	Estimated Useful Lives
Furniture and office equipment	10 Years
Maintenance and construction equipment	5 Years
Medium and heavy motor vehicles	5 Years
Automobiles and light trucks	5 Years

8. 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 statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

Vacation leave is accumulated at the rate of up to thirty (30) days per year with each leave being fully vested when earned. For the Town's proprietary funds an expense and a liability for compensated absences and the salary-related payments are recorded within the funds as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net Assets
Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances
In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved:

Reserved for inventories - portion of fund balance that is not available for appropriation because it represents the year-end fund balance of ending inventories, which are not expendable, available resources.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances and reserves for inventories, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and inter-fund receivables which have not been offset by deferred revenues.

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

Unreserved:

Designated for subsequent year's expenditures - portion of the total fund balance available for appropriation that has been designated for the adopted 2008-2009 budget ordinance.

Undesignated - portion of total fund balance available for appropriation that is uncommitted at year-end.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None

2. Contractual Violations

None

B. Deficit Fund Balance or Retained Earnings of Individual Funds

The Capital Project fund had deficit fund balance at June 30, 2008 of $487,094. The deficit fund balance was due to timing differences. Management will closely monitor expenditures in the future.

C. Excess of Expenditures over Appropriations

None

III. Detail Notes on All Funds and Account Groups

A. Assets

1. 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's in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the 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 amounts 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 the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2008, the Town's deposits had a carrying amount of $2,315,592 and a bank balance of $2,379,827. Of the bank balance, $100,000 was covered by federal depository insurance and the remainder was covered by collateral under the pooling method.

2. Investments

The Town had no investments.

3. Receivables- Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts. There are no doubtful accounts. The Town uses direct write off method.

Receivables

	Accounts	Taxes and Related Accrued Interest	Due From Other Governments	Other	Total
Governmental Activities:					
General	$ 3,196	$ 30,319	$ 153,713	$ -	$ 187,228
Total Governmental Activities	$ 3,196	$ 30,319	$ 153,713	$ -	$ 187,228
Business-Type Activities:					
Water and Sewer	$ 260,819	$ -	$ -	$ -	$ 260,819
Total Business-Type Activities	$ 260,819	$ -	$ -	$ -	$ 260,819

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2008, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 68,455	$ 3,600,000	$ -	$ 3,668,455
Construction in progress	2,869,365	-	-	2,869,365
Total capital assets not being depreciated	2,937,820	3,600,000	-	6,537,820
Capital assets being depreciated:				
Buildings	545,627	-	-	545,627
Equipment and Vehicles	2,481,724	140,059	-	2,621,783
Improvements	33,354	-	-	33,354
Infrastructure	284,803	-	-	284,803
Total capital assets being depreciated	3,345,508	140,059	-	3,485,567
Less accumulated depreciation for:				
Buildings	390,546	27,282	-	417,828
Equipment and Vehicles	1,787,318	296,349	-	2,083,667
Improvements	20,506	1,564	-	22,070
Infrastructure	178,969	4,279	-	183,248
Total accumulated depreciation	2,377,339	329,474	-	2,706,813
Total capital assets being depreciated, net	968,170			778,754
Governmental activity capital assets, net	$ 3,905,990			$ 7,316,574

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

General Government	$ 23,259
Public Safety	203,172
Transportation	-
Environmental Protection	94,270
Cultural and Recreational	8,773
Total Depreciation Expense	$ 329,474

Water and Sewer Fund:

	Beginning Balances	Increases	Decreases	Ending Balances
Business type activities:				
Capital assets not being depreciated:				
Land	$ 20,697	$ -	$ -	$ 20,697
Construction in progress	-	-		-
Total capital assets not being depreciated	20,697	-	-	20,697
Capital assets being depreciated:				
Plant & Distribution Systems	6,751,280	727,059	-	7,478,339
Buildings	171,029	-	-	171,029
Equipment and Vehicles	184,456	129,920	-	314,376
Total capital assets being depreciated	7,106,765	856,979	-	7,963,744
Less accumulated depreciation for:				
Plant & Distribution Systems	2,028,163	104,617	-	2,132,780
Buildings	116,857	2,709	-	119,566
Equipment and Vehicles	29,343	51,850	-	81,193
Total accumulated depreciation	2,174,363	159,176	-	2,333,539
Total capital assets being depreciated, net	4,932,402			5,630,205
Water & Sewer Fund activity capital assets, net	$ 4,953,099			$ 5,650,902

Construction commitments

The government has several active construction projects as of June 30, 2008.

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Kure Beach 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 Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699, 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 4.8% and 4.86%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Kure Beach are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2008, 2007, and 2006 were $55,154, $54,698 and $52,498, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description.

The Town of Kure Beach 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. The town has not obtained an actuarial plan because its required contributions are considered immaterial. The town funds the plan when benefits become due.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2007, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	9
	9

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. *Contributions.*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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 five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2008 were $89,807, which consisted of $67,201 from the Town and $22,606 from the law enforcement officers.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed $50,000 or be less than $25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan

cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

3. Deferred/Unearned Revenues

The balance in deferred/unearned revenues at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Taxes Receivable (General Fund)	$ 26,342	$ -
Total	$ 26,342	$ -

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three 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 of $1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits and employee health coverage up to $2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of $500,000 and $300,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

In accordance with G.S. 159-29, the Town's employees that have access to $100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for $50,000. The remaining employees that have access to funds are under a blanket bond for $50,000.

The Town carries flood insurance through NCLM-Interlocal Risk Financing Fund of NC.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2008, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position

6. Long Term Obligations

a. Capital Leases

None.

b. Installment Purchases

The Town has entered into the following installment purchase contracts:

1 –Contract entered into for purchase of 1500 GPM Pumper Fire truck. Requires annual payments of $29,517. Installments include interest on the unpaid balance at the rate of 3.36%. Balance at June 30, 2008 is $108,780 for the governmental activities.

2 –Contract entered into for purchase of 2005 Ford F550 DRW Fire truck. Requires annual payments of $12,741. The installments include interest on the unpaid balance at the rate of 3.56%. Balance at June 30, 2008 is $40,000 for the governmental activities.

3 –Contract entered into for installation of a Town drainage system. Requires monthly payments of $6,678. The installments include interest on the unpaid balance at the rate of 4.40%. Balance at June 30, 2008 is $739,850 for the governmental activities.

4 –Contract entered into for purchase of 2008 Service Truck and 2007 Chevy 4500 Dump Truck. Requires annual payments of $21,564. The installments include interest on the unpaid balance at the rate of 4.02%. Balance at June 30, 2008 is $18,544 for the governmental activities and $41,276 for the business type activities.

5 –Contract entered into for purchase of (3) Ford F – 150 Police Trucks for $100,173. Requires annual payments of $26,487. The installments include interest on the unpaid balance at the rate of 3.87%. Balance at June 30, 2008 is $50,050 for the governmental activities.

6 –Contract entered into for purchase of 2007 International garbage truck for $150,980. Requires annual payments of $32,544. The installments include interest on the unpaid balance at the rate of 3.89%. Balance at June 30, 2008 is $90,500 for the governmental activities.

7 –Contract entered into for purchase of software for the police department in the amount of $28,466. Requires annual payments of $9,865. The installments include interest on the unpaid balance at the rate of 4.02%. Balance at June 30, 2008 is $18,606 for the governmental activities.

8 –Contract entered into for purchase two (2) Ford Taurus sedans for $51,919. Requires annual payments of $10,685. The installments include interest on the unpaid balance at the rate of 3.53%. Balance at June 30, 2008 is $29,919 for the governmental activities.

9 –Contract entered into for purchase land for $3,600,000. Requires annual principal payments of $155,000. The installments do not include interest on the unpaid balance at the rate of 4.28%. Balance at June 30, 2008 is $3,100,000 for the governmental activities.

10 –Contract entered into for purchase of John Deere Backhoe Loader. Requires annual payments of $15,145. The installments include interest on the unpaid balance at the rate of 4.12%. Balance at June 30, 2008 is $25,233 for the governmental activities and $29,622 for the business type activities.

11 –Contract entered into for construction of a water tower, well house, and renovations to town hall for $1,187,187. Requires annual payments of $105,433. The installments include interest on the unpaid balance at the rate of 3.92%. This loan is split between governmental activities($200,000) and the business type activities ($987,187). The Balance at June 30, 2008 is $191,711 for the governmental activities and $937,891 for the business type activities.

12 –Contract entered into for purchase of (4) generators and a trailer-mounted double walled fuel tank for $92,033. Requires annual payments of $35,638. The installments include interest on the unpaid balance at the rate of 4.19%. Balance at June 30, 2008 is $34,204 for the business type activities.

13 –Contract entered into for purchase of an elevated water tank for $217,813. Requires annual payments of $58,899. The installments include interest on the unpaid balance at the rate of 6.43%. Balance at June 30, 2008 is $112,351 for the business type activities.

b. Installment Purchases

The future minimum payments of the installment purchases as of June 30, 2008,

Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest	Business Type Activities Principal	Business Type Activities Interest
2009	334,024	192,460	218,050	45,953
2010	340,759	172,180	73,343	36,224
2011	311,402	158,186	77,307	33,260
2012	267,368	145,312	65,532	30,156
2013	225,050	134,120	59,937	27,573
2014-2018	1,174,256	522,238	337,208	100,340
2019-2023	985,334	285,078	323,967	28,877
2024-2028	775,000	99,540	-	-
Total	$ 4,413,193	$ 1,709,114	$ 1,155,344	$ 302,383

d. Changes in Debt

During the year ended June 30, 2008, the following changes occurred in liabilities reported in long-term debt:

	Balance 07/01/07	Increases	Decreases	Balance 06/30/08	Current Portion of Balance
Governmental activities:					
Installment purchases	$ 1,384,258	$ 3,737,700	$ (708,765)	$ 4,413,193	$ 334,024
Compensated absences	70,776	4,001	-	74,777	-
Governmental activity long-term liabilities	$ 1,455,034	$ 3,741,701	$ (708,765)	$ 4,487,970	$ 334,024
Business-type activities:					
Installment purchases	$ 1,281,524	$ 94,069	$ (220,249)	$ 1,155,344	$ 218,050
Compensated absences	20,661	6,903	-	27,564	-
Business -type activity long-term liabilities	$ 1,302,185	$ 100,972	$ (220,249)	$ 1,182,908	$ 218,050

At June 30, 2008, the Town of Kure Beach had a legal debt margin of $91,130,072.

C. Interfund Balances and Activity

Interfund balances	
Water and Sewer Fund owes General Fund	$ 336,316
General Fund owes Grant Project Fund	99,062
Grant Project Fund owes the Water and Sewer Fund	95,224
Water and Sewer Fund owes Grant Project Fund	8,000
Grant Project Fund owes Water and Sewer Fund	562,065
Interfund balances	$ 1,100,667

Balances are for day to day operations.

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several Federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Town of Kure Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	$	$ 1,604,212	$
Penalties and interest		5,537	
Total	1,635,780	1,609,749	(26,031)
Other taxes and licenses:			
Motor vehicle licenses		8,091	
Licenses & Fees		4,519	
Total	71,500	12,610	(58,890)
Unrestricted intergovernmental:			
Local option sales taxes		484,764	
ABC Revenue		15,057	
Utility franchise tax		66,041	
Beer and wine tax		9,434	
Video programming		39,600	
Telecommunications tax		17,829	
Refunds		2,383	
Total	611,882	635,108	23,226
Restricted intergovernmental:			
Grants		77,793	
Powell Bill allocation		76,762	
Total	104,869	154,555	49,686
Permits and fees:			
Garbage Fees		110,445	
Building permits		23,536	
Cable fees		4,409	
Admin fees		25,000	
Miscellaneous		10,175	
Police fees		2,530	
Total	193,725	176,095	(17,630)

Town of Kure Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Sales and services:			
Rents and Concessions		94,877	
Impact fees		145,830	
Miscellaneous		2,237	
Total	224,807	242,944	18,137
Investment earnings	55,600	38,788	(16,812)
Total Revenues	2,898,163	2,869,849	(28,314)
General government:			
Governing body:			
Salaries & benefits		14,568	
Operating expense		14,093	
Capital Outlay		-	
Total	41,965	28,661	13,304
Elections:			
Operating expense		6,097	
Total	6,097	6,097	-
Administration:			
Salaries & benefits		134,778	
Operating expense		326,598	
Capital Outlay		17,239	
Total	525,549	478,615	46,934
Finance:			
Salaries & benefits		36,803	
Operating expense		19,934	
Capital Outlay		-	
Total	80,772	56,737	24,035
Total General Government	654,383	570,110	84,273
Transportation:			
Salaries & benefits		-	
Operating expense		15,417	
Capital Outlay		-	
Total	76,653	15,417	61,236

Town of Kure Beach, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Public Safety:			
Police:			
Salaries & benefits		674,858	
Operating expense		145,120	
Capital Outlay		86,214	
Total	906,391	906,192	199
Fire:			
Salaries & benefits		109,064	
Operating expense		45,593	
Capital Outlay		-	
Total	158,235	154,657	3,578
Life guards:			
Salaries & benefits		105,313	
Operating expense		11,461	
Capital Outlay		-	
Total	123,566	116,774	6,792
Building inspections:			
Salaries & benefits		64,159	
Operating expense		27,941	
Capital Outlay		-	
Total	103,113	92,100	11,013
Total Public Safety	1,291,305	1,269,723	21,582
Environmental protection:			
Salaries & benefits		394,585	
Operating expense		460,696	
Capital Outlay		6,906	
Total	961,661	862,187	99,474
Special projects:			
Parking committee		2,900	
Parks and Recreation classes		2,838	
Beautification		40,082	
Other		8,143	
Total	62,530	53,963	8,567
Debt service:			
Principal		208,764	
Interest		56,137	
Total	275,000	264,901	10,099
Total Expenditures	3,321,532	3,036,301	285,231
Revenues over (under) expenditures	(423,369)	(166,452)	256,917

Town of Kure Beach, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2008

	2008		
	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Proceeds from Install. Purchase		137,700	
Transfers from other funds	-	-	
Transfers to other funds	(37,580)	-	
Fund Balance Appropriated	460,949	-	
Total	423,369	137,700	(285,669)
Net change in Fund Balance	$ -	(28,752)	$ (28,752)
Fund balances, Beginning		2,027,481	
Fund balances, Ending		$ 1,998,729	

Town of Kure Beach, North Carolina
Special Revenue Fund - Grant Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2008

	Project Author - ization	Actual Prior Years	Actual Current Year	Actual Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental					
Grants	$ 1,582,524	$ 1,440,024	$ -	$ 1,440,024	$
Interest	-	10,483	871	11,354	
Program Income	516,026	665,290	-	665,290	
Total	2,098,550	2,115,797	871	2,116,668	18,118
Expenditures:					
Beach renourishment:					
Planning and design	-	-	-	-	
Construction	2,098,550	2,085,448	12,393	2,097,841	
Real estate acquisition	-	-	-	-	
Total expenditures	2,098,550	2,085,448	12,393	2,097,841	709
Revenues over expenditures	-	30,349	(11,522)	18,827	18,827
Other financing sources:					
Fund balance appropriated		-	-	-	-
Net change in fund balance	$ -	$ 30,349	(11,522)	$ 18,827	$ 18,827
Fund balances:					
Fund Balance, Beginning			30,349		
Fund Balance, Ending			$ 18,827		

Town of Kure Beach, North Carolina
Capital Project Fund - Capital Projects Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2008

	Project Author - ization	Actual Prior Years	Actual Current Year	Actual Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental					
Grants (Local)	$ 500,000	$ -	$ 500,000	$ 500,000	
Federal and State Grants	5,000,000	-	-	-	
Interest	-	-	12,828	12,828	
Other income	-	-	-	-	
Total	5,500,000	-	512,828	512,828	$ (4,987,172)
Expenditures:					
Capital projects:					
Planning and design	-	-	-	-	
Construction	1,012,025	-	499,922	499,922	
Debt Service	4,999,691		500,000	500,000	
Real estate acquisition	3,600,000	-	3,600,000	3,600,000	
Total expenditures	9,611,716	-	4,599,922	4,599,922	5,011,794
Revenues over expenditures	(4,111,716)	-	(4,087,094)	(4,087,094)	24,622
Other financing sources:					
Installment sale proceeds	3,600,000	-	3,600,000	3,600,000	-
Local match	511,716	-	-	-	(511,716)
Total other financing sources	4,111,716	-	3,600,000	3,600,000	511,716
Net change in fund balance	$ -	$ -	(487,094)	$ (487,094)	$ (487,094)
Fund balances:					
Beginning of year, July 1			-		
End of year, June 30			$ (487,094)		

Town of Kure Beach, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2008

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services:			
Water sales:			
Residential & Commercial	$	$ 1,520,661	$
Water and Sewer taps		-	
Other operating revenues		36,000	
Total	1,353,480	1,556,661	203,181
Nonoperating revenues:			
Interest earnings	35,000	19,653	(15,347)
Total Revenues	1,388,480	1,576,314	187,834
Expenditures:			
Water and Sewer Administration & Operations:			
Salaries and benefits		407,058	
Operating expenditures		715,858	
Capital outlay		856,979	
Total	2,001,000	1,979,895	21,105
Debt service:			
Interest and fees		53,569	
Principal retirement		220,249	
Total debt service	274,750	273,818	932
Total expenditures	2,275,750	2,253,713	22,037
Revenues over (under) expenditures	(887,270)	(677,399)	209,871

Town of Kure Beach, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2008

	2008		
	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Transfers in (out)	-	-	-
Installment purchase proceeds	95,000	94,069	(931)
Fund balance appropriated	792,270	-	(792,270)
Total other financing sources (uses):	887,270	94,069	(793,201)
Revenues and other sources over expenditures and other uses	$ -	$ (583,330)	$ (583,330)

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

Revenues and other sources over expenditures and other uses	$ (583,330)
Reconciling items:	
Capital outlay	856,979
Installment purchase proceeds	(94,069)
Depreciation	(159,176)
Principal retirement	220,249
Total reconciling items	823,983
Change in net assets	$ 240,653

OTHER SCHEDULES

This section includes additional information on property taxes, transfers, and cash and investments.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Kure Beach, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2008

Fiscal Year	Uncollected Balance June 30, 2007	Additions	Collections And Credits	Uncollected Balance June 30, 2008
2007-2008	$	$ 1,612,423	$ (1,596,722)	$ 15,701
2006-2007	11,043		(7,771)	3,272
2005-2006	2,248	-	(254)	1,994
2004-2005	1,875	-	(839)	1,036
2003 - and prior	5,168	-	(829)	4,339
	$ 20,334	$ 1,612,423	$ (1,606,415)	$ 26,342

Ad valorem taxes receivable - net	$ 26,342
Reconcilement with revenues:	
Ad valorem taxes - General Fund	$ 1,609,749
Reconciling items:	
Write offs, collection fees, & discounts	2,203
Interest collected	(5,537)
Total collections and credits	$ 1,606,415

Town of Kure Beach, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2008

	Town - wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property Taxes at Current Year Rate	$ 1,217,000,741	0.135%	$ 1,642,951	$ 1,604,232	$ 38,719
Penalties	444		131	131	-
Total Original Levy	1,217,001,185		1,643,082	1,604,363	38,719
Discoveries:					
Current year taxes	95,751,852	0.135%	129,265	129,265	-
Abatements:					
Current Year Taxes	(118,462,222)	0.135%	(159,924)	(159,195)	(729)
Total for Year	$ 1,194,290,814		1,612,423	1,574,433	37,990
Uncollected taxes at June 30, 2008			15,701	11,361	4,340
Current year's taxes collected			$ 1,596,722	$ 1,563,072	$ 33,650
Current levy collection percentage			99.03%	99.28%	88.58%

Compliance Section

Thompson · Price
Scott · Adams & Co PA

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Report On Internal Control Over Financial Reporting and on Compliance and other matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Kure Beach, North Carolina, as of and for the year ended June 30, 2008, which collectively comprises the Town of Kure Beach's basic financial statements, and have issued our report thereon dated October 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiency described below to be significant deficiencies in internal control over financial reporting.

Absent or inadequate segregation of duties within a significant account or process.

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

The Town's response to the findings identified in our audit are described above. We did not audit the Town's response and, accordingly, we express no opinion on it.

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

Thompson, Price, Scott, Adams & Co., P.A.

Thompson, Price, Scott, Adams & Co., P.A.
October 25, 2008