

McGladrey & Pullen

Certified Public Accountants

Carteret County, North Carolina

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

Prepared by the Finance Department

Dee Meshaw, Finance Director

Table of Contents

Introductory Section (Unaudited)

Letter of Transmittal	1 - 5
List of Principal Officials	6
Organizational Chart	7
Map of Carteret County	8
GFOA Certificate of Achievement	9

Financial Section

Independent Auditor's Report	10 - 11
Management's Discussion and Analysis	12 - 20
Basic Financial Statements	
Government-wide financial statements:	
Statement of net assets	21 - 22
Statement of activities	23 - 24
Fund financial statements:	
Governmental Funds:	
Balance sheet	25
Statement of revenue, expenditures and changes in fund balances	26
Reconciliation of the statement of revenue, expenditures, and changes in fund balances - to the statement of activities	27
General Fund:	
Statement of revenue, expenditures and changes in fund balances - budget and actual	28
Proprietary Funds:	
Statement of fund net assets	29
Statement of revenue, expenses and changes in fund net assets	30
Statement of cash flows	31 - 32
Fiduciary Funds:	
Statement of fiduciary net assets	33
Notes to financial statements	34 - 70

Supplementary Information

General Fund:	
Schedule of revenue, expenditures and changes in fund balance - budget and actual	71 - 79
Summary of Nonmajor Funds:	
Combining balance sheet - nonmajor governmental fund types	80
Combining statement of revenue, expenditures and changes in fund balances - nonmajor governmental fund types	81

Nonmajor Special Revenue Funds:	
Combining balance sheet	82 - 83
Combining statement of revenue, expenditures and changes in fund balances (deficit)	84 - 85
Schedule of revenue, expenditures, and changes in fund balance (deficit) - budget and actual:	
Rescue Squad Fund	86
Fire District Fund	87
Emergency 911 Fund	88
Occupancy Tax Fund	89
Salter Path District Fund	90
2004 CDBG Scattered Site	91
CDBG 2001 Laurel Road Fund	92
Nonmajor Capital Project Funds:	
Combining balance sheet	93
Combining statement of revenue, expenditures and changes in fund balances	94 - 95
Schedule of revenue, expenditures and changes in fund balances - budget and actual:	
County Capital Reserve Fund	96
County Capital Improvements Fund	97
School Special Projects Fund	98
Western Library Fund	99
Carteret Community College Fund	100
Enterprise Fund:	
Schedule of revenue and expenditures - budget and actual (non-GAAP):	
Water Operating Fund	101
Highway 101 Phase II Water Project Fund	102
Agency Funds:	
Combining balance sheet	103
Combining statement of changes in assets and liabilities	104
Governmental Funds Capital Assets:	
Capital assets used in the operation of governmental funds:	
Comparative schedules by source	105
Schedule by function and activity	106
Schedule of changes by function and activity	107
Other Financial Information:	
Schedule of ad valorem taxes receivable	108
Analysis of current year's tax levy	109

Statistical Section (Unaudited)

Table 1.	Government-wide revenue	110
Table 2.	Government-wide expenses	111
Table 3.	General governmental revenue - by source - last ten fiscal years	112
Table 4.	General governmental expenditures - by function - last ten fiscal years	113
Table 5.	Property tax levies and collections - last ten fiscal years	114
Table 6.	Assessed value of property - last ten fiscal years	115
Table 7.	Property tax rates - direct and underlying governments - last ten fiscal years	116
Table 8.	Ratio of general obligation debt to assessed value and general obligation bonded debt per capita - last ten fiscal years	117
Table 9.	Computation of legal debt margin	118
Table 10.	Ratio of annual debt service expenditures for general obligation bonded debt to total general governmental expenditures - last ten fiscal years	119
Table 11.	Computation of direct and underlying debt - general obligation bonds	120
Table 12.	Demographic statistics - last ten fiscal years	121
Table 13.	Ten Largest Taxpayers	122
Table 14.	Property value, construction, and bank deposits - last ten fiscal years	123
Table 15.	Miscellaneous statistics	124

Compliance Section

Independent Auditor's Report on:

Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	125 - 126
Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act	127 - 128
Compliance With Requirements Applicable to Each Major State Program and on Internal Control Over Compliance in Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act	129 - 130
Schedule of Findings and Questioned Costs	131 - 133
Corrective Action Plan	134
Summary Schedule of Prior Audit Findings	135
Schedule of Expenditures of Federal and State Awards	136 - 142
Notes to Schedule of Expenditures of Federal and State Awards	143

Introductory Section

Letter of Transmittal

List of Principal Officials

Organizational Chart

Map of Carteret County, North Carolina

October 10, 2005

To the Citizens of Carteret County:

State law requires that all general-purpose local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America ("GAAP") and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the County of Carteret (the "County") for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement as management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The County's financial statements have been audited by McGladrey & Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Comprehensive Annual Financial Report. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statement in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

Profile of the County

Carteret County, incorporated in 1722, is a growing county located on the central coastline of North Carolina with approximately 61,000 residents living in or around municipalities and rural "Down East" maritime communities. Carteret County contains 526 square miles of land area and a coastline nearly 80 miles long. The county is bordered on the north by the Pamlico Sound and on the east and south by the Atlantic Ocean. Eleven municipalities are located within the County, with Morehead City being the largest. Beaufort, the third oldest town in North Carolina, serves as the county seat.

Carteret County has established itself as a premier vacation spot, with attractions such as Fort Macon State Park, North Carolina Aquarium, North Carolina Maritime Museum, and Cape Lookout National Seashore. The County has a commissioners/manager form of government. Districts elect the seven members of the Board and serve staggered terms. Policy-making and legislative authority are vested in the governing board. The governing board is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the County's manager and attorney. The county manager is responsible for carrying out the policies and ordinances of the governing board, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The County provides a full range of services including public safety, social services and health services, cultural and recreational activities, general administration, and other. The Board of County Commissioners also extends financial support to certain boards, agencies, and commissioners to assist their efforts in servicing citizens. Among these are the Carteret County Board of Education, the Craven-Pamlico-Carteret Regional Library, Carteret Community College, the Economic Development Council, and Neuse Center.

The annual budget serves as the foundation for the County's financial planning and control. All agencies of the County are required to submit requests for appropriation to the county manager's office on or before the end of February each year. The appropriated budget is prepared by fund, function (e.g. public safety), and department (e.g. law enforcement). Department heads may make transfers of appropriations within a department. The county manager may transfer amounts between objects of expenditures and revenues within a department without limitation. He may transfer amounts up to \$20,000 between departments of the same fund. He may not transfer any amount between funds or from contingency appropriation within any fund without action of the Board of Commissioners. The manager may also transfer amounts within and between funds for the sole purpose of funding salary and benefits adjustments consistent with the Carteret County personal policy. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 28 as part of the basic financial statements for the governmental funds. Also included in the governmental fund subsection are project-length budget-to-actual comparisons for each governmental fund for which a project-length budget has been adopted (i.e. the special revenue funds and the capital projects funds).

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local Economy

The County currently enjoys a favorable economic environment and local indicators point to continued stability. The economy continues its successful transition from a seasonal economy dependent on tourism to a diversified, year-round economy. Although the tourism industry continues to perform well with an average annual economic impact of approximately \$236 million, much of the improvement in the economy is attributable to the diversification of the economy into manufacturing, distribution, marine sciences, and the construction trades. Annual unemployment average was 4.59% for the County compared to 4.66% in the prior year

Industrial Parks

The Jarrett Bay Marine Industrial Park is approximately 170 acres north of Beaufort on the Intracoastal Waterway. The Park concentrates on the boat industry. Carteret County has thirty boat builders, the largest number in North Carolina. The Park continues to expand with 24 of the 29 lots available sold in the second phase of the industrial park.

Crystal Coast Business Park is located off US 70 in Morehead City. The park is 58 acres with eleven parcels. Five parcels have been sold. The County continues its efforts to recruit businesses to this park. Parcel sizes vary from approximately 2 acres to over 10 acres.

Marine Research

The marine research industry continues to grow in the County. A study prepared by the Kenan Institute's Center for Competitive Economics at UNC Chapel Hill illustrates that marine science and research activities contribute \$127 million and 3,162 to the region's economy. The research and educational ventures contribute \$58 million in revenue annually and are as follows: UNC-Chapel Hill, NC State University, Duke University, the National Oceanic and Atmospheric Administration, the NC Maritime Museum, and the NC Aquarium at Pine Knoll Shores.

The North Carolina Aquarium in Pine Knoll Shores continues its \$23 million expansion. The aquarium's square footage will more than triple from 29,000 to 93,000 square feet. New exhibits will include a 306,000-gallon ocean tank. The aquarium anticipates reopening in 2006. Before the expansion, visitation was 240,000 annually and projections increase visitation to 500,000 the first year it reopens.

Carteret County is part of a 14 county collaborative effort that extends natural gas to the unserved counties of eastern North Carolina. The extension of gas into Carteret County was completed in 2005, and thus enhanced the county's industrial recruitment efforts. The funding source was \$200 million in North Carolina general obligation bonds.

The following table lists the 10 largest manufacturing and nonmanufacturing employers in the County in 2005:

Employer	Service	Approximate Number of Employees
Carteret County Public Schools	Education	1,418
Carteret General Hospital	Medical	842
Wal-Mart	Retail	563
Atlantic Veneer	Hardwood Veneer	363
Carteret Community College	Education	350
Carteret County	Government	345
Food Lion	Food Services	270
Henry's Tackle & Sporting Goods	Wholesale Distribution	205
U.S. Coast Guard	Military	209
NC Natural Resources & Community Development	Government	173

Source: Carteret County Economic Development Council, June 2004

Long-Term Financial Planning

The County's operating budget for the fiscal year ending June 30, 2006 totals \$77,332,821 with a tax rate of \$.42 per \$100 of assessed value, based on a total valuation of \$8,020,738,946. The County anticipates moderate growth in its tax base. For the County's operating budget for the fiscal year June 30, 2007, it is anticipated that the tax rate would need to be between \$.42 and \$.44 per \$100 of assessed value to maintain the current level of service.

The County may elect to use available fund balance for some capital projects and improvements, but such use will be within the constraints of the County's fund balance policy, which requires the County to maintain a 15 percent undesignated fund balance in the General Fund.

Cash Management

Effective financial planning and cash management practices have aided in the efficient use of available resources. The County continues to have a cash management program designed to assure safety of principal, sufficient liquidity for current operations, and the attainment of market-average rate of return. The demand deposit checking accounts are interest earnings. Idle cash is invested using competitive bidding among all banks with investments awarded based on the highest yield. The County uses the bond trading areas of Wachovia Bank, BB&T, and First Citizens Bank for pricing and yields on various securities that are purchased. Carteret County invests primarily in government agencies.

Pension and Other Postemployment Benefits

Carteret County administers a public employee retirement system (the "Separation Allowance"); a single-employer defined benefit pension plan that provides retirement benefits to the County'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 allowance 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 County finances this on a pay-as-you-go basis.

All full-time County law enforcement officers are covered by the Separation Allowance. At December 31, 2004, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled but not yet receiving benefits	0
Active plan members	<u>39</u>
Total	<u>39</u>

The County has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employee's Retirements System ("Death Benefit Plan"), a State administered plan funded on a one year-term cost basis.

The County also provides pension benefits for all County employees through a statewide plan managed by the Department of State Treasurer, Retirement Division. The County has no obligation in connection with employee benefits offered through this plan beyond its annual contractual payment to the Retirement Division.

The County also provides post retirement health care benefits for certain retirees. At the end of the current fiscal year, there were 26 retired employees receiving this benefit, which is financed on a pay-as-you-go basis. GAAP currently does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide this benefit. Additional information of the County's pension arrangements and postemployment benefits can be found in Notes 10 and 11 in the notes to financial statements.

Award and Acknowledgements

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to Carteret County for its Comprehensive Annual Financial Report for the year ended June 30, 2004. This was the eighth consecutive year that Carteret County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year ended June 30, 2005. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications devise.

In summary, this Comprehensive Annual Financial Report provides a source of information to citizens, the Board of Commissions, other governmental agencies, and investors and creditors, all of whom rely upon it for decision making and the opportunity to learn more about Carteret County's financial condition.

Much appreciation is expressed to the Finance Department's staff and McGladrey & Pullen, LLP without whose dedicated assistance this report could not have been produced. Gratitude goes to the Board of Commissioners for their continued interest and support throughout the past year.

Sincerely,

Dee K. Meshaw
Finance Director

CARTERET COUNTY, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2005

**BOARD OF
COMMISSIONERS**

LYNDA CLAY
Chair
Morehead City, North Carolina

JONATHAN ROBINSON
Morehead City, North Carolina

RAYMOND MUNS
Newport, North Carolina

DOUGLAS HARRIS
Newport, North Carolina

THOMAS STEEPY
Vice Chair
Atlantic, North Carolina

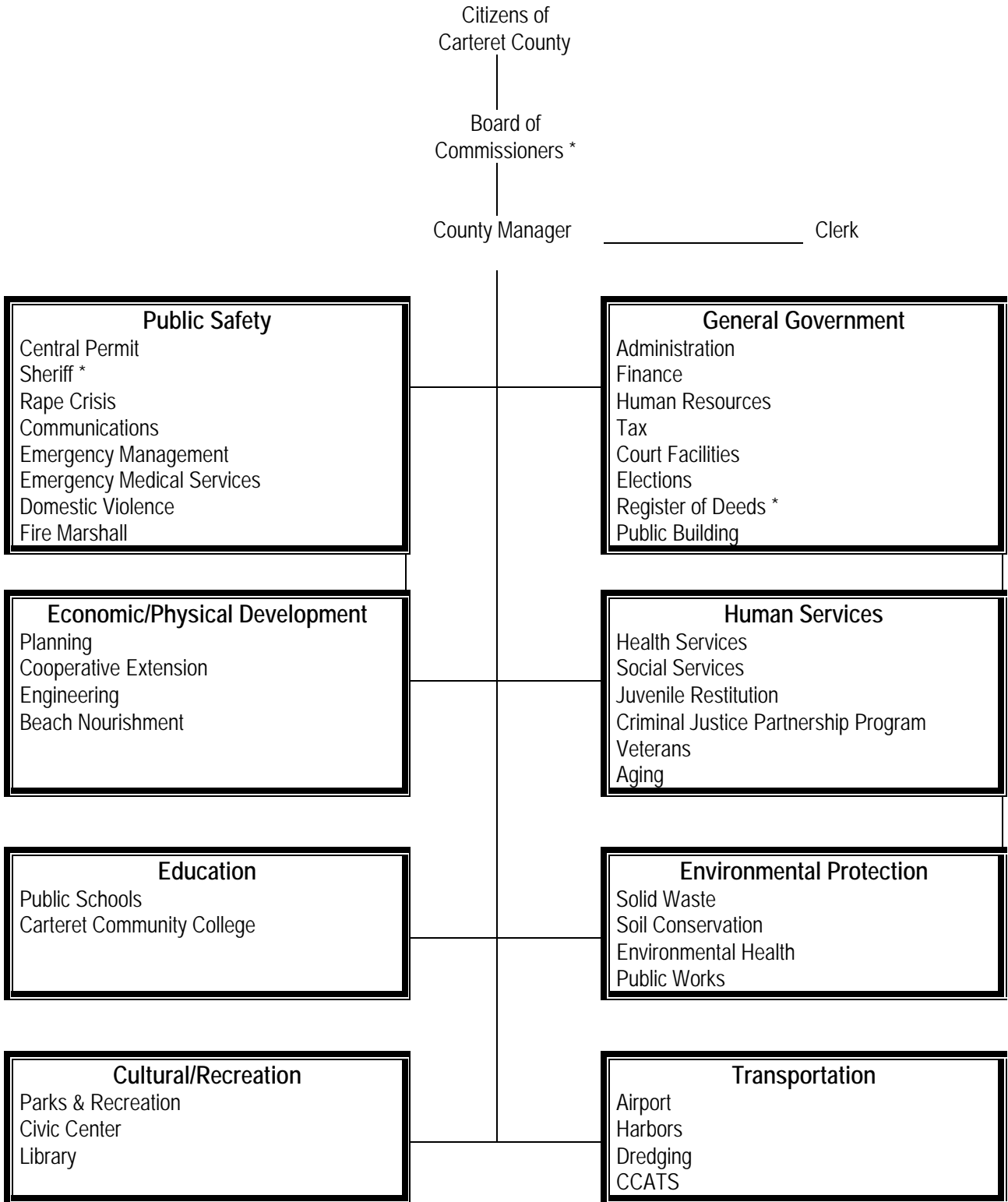
PAT McELRAFT
Cape Carteret, North Carolina

HOLT FAIRCLOTH
Beaufort, North Carolina

COUNTY OFFICIALS

John Langdon	County Manager
Dee H. Meshaw	Finance Director
Ralph Thomas, Jr.	Sheriff
Melanie Arthur	Register of Deeds
J.T. Garrett	Health Director
Katrina Marshall	Planning & Central Permit Director
Robert Eason	Social Services Director
Allen Smith	Emergency Management Director
Myles McLoughlin	Human Resources Director
Deborah Pasteur	Parks & Recreation Director
Carl Tilghman	Tax Administrator
Steve Baker	Information Technology Director

**Carteret County, North Carolina
Organizational Chart**



* Elected Officials

MAP OF
CARTERET COUNTY, NORTH CAROLINA

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Carteret County,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

Financial Section

-
- Independent Auditor's Report
 - Management's Discussion and Analysis
 - Basic Financial Statements
 - Notes to the Basic Financial Statements
 - Supplementary Information
-

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of County Commissioners
Carteret County
Beaufort, 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 Carteret County, North Carolina, as of and for the fiscal year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Carteret County, North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Beaufort-Morehead City Airport Authority, Carteret County Tourism Development Authority, Carteret County Alcoholic Beverage Control ("ABC") Board or Carteret County General Hospital Corporation, which constitute all of the County's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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 financial statements are free of material misstatement. The financial statements of Carteret County ABC Board and Carteret County General Hospital Corporation, each discretely presented component units, were not audited in accordance with *Government Auditing Standards*. 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 and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Carteret County, North Carolina, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 September 30, 2005 on our consideration of Carteret County, North Carolina's internal control over financial reporting and on 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 considered in assessing the results of our audit.

Management's Discussion and Analysis information on pages 12 through 20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Carteret County, North Carolina basic financial statements. The combining and individual fund financial statements and other schedules listed in the table of contents as supplementary information and the introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the accompanying Schedule of Expenditures of Federal and State Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual fund financial statements and other schedules and the Schedule of Expenditures of Federal and State Awards have been subjected to the auditing procedures applied in the audit of 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. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Morehead City, North Carolina
September 30, 2005, except for
Note 19 as to which the date is
November 8, 2005

Management's Discussion and Analysis
June 30, 2005

As management of the County, we offer readers of Carteret County's (the "County") financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative, and the preceding letter of transmittal.

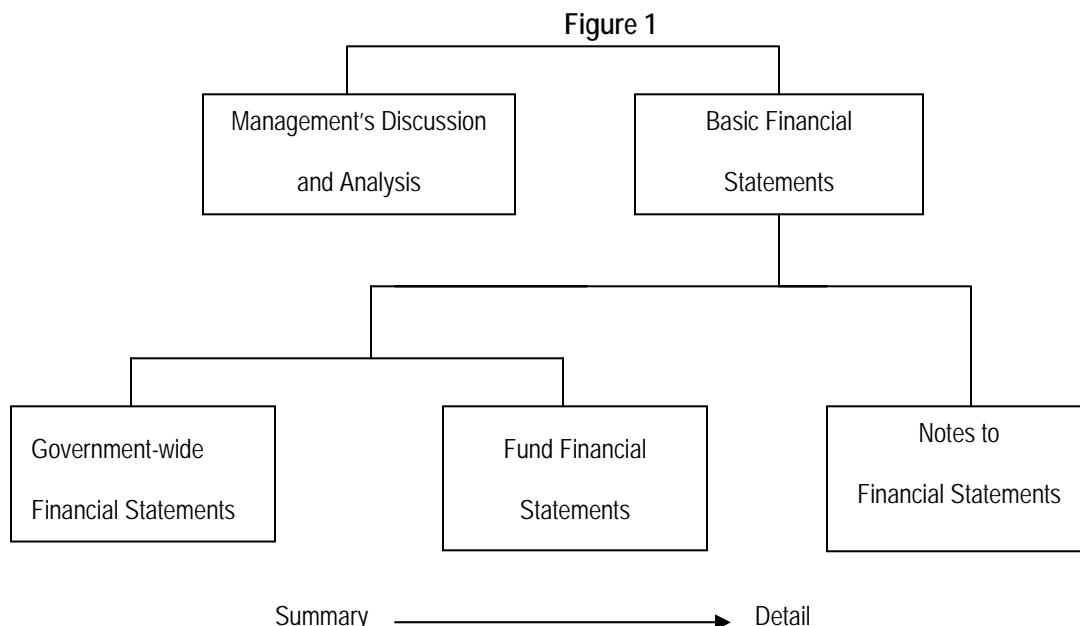
Financial Highlights

- The assets of Carteret County (primary government) were greater than its liabilities at the close of the fiscal year by \$7,693,196 (*net assets*).
- At the end of the current fiscal year, unreserved and undesignated fund balance for the General Fund was \$14,115,874 or 24.58 percent of total general fund expenditures for the fiscal year.
- The County's total long-term debt (Figure 5) decreased by \$1,931,980 due primarily to debt payments. The County's governmental long-term debt decreased \$4,316,572 due to debt payments. The Water Fund's Debt increased by \$2,384,542 for the Phase II expansion of water lines.
- The County maintained its AA- (Fitch IBCA), Aa3 (Moody's Investor Services) for the 5th consecutive year, and its Aa- by Standard & Poor's for the second consecutive year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the County 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 County.

Required Components of Annual Financial Report



Basic Financial Statements

The first two statements in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the County's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. There are four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 County's non-major governmental funds and internal service funds, all of which are added together in one column on the basic financial statements. 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 County'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 County's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) discretely presented component units. The governmental activities include most of the County's basic services such as general administration, human services, education, public safety and public works. Property and other taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the water services offered by the County. The final category is the component units. Although legally separate from the County, the ABC Board, Carteret General Hospital, Tourism Development Authority and the Airport are important to the County because the County exercises control over the Board by appointing its members.

The government-wide financial statements are on Pages 21 – 24 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the County'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 County, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the County's budget ordinance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Management's Discussion and Analysis
June 30, 2005

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County'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* which provides a current financial resources 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 County'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 County 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 County, the management of the County, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County 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 Statement of Revenues, Expenditures and Changes in Fund Balance. 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 Funds – The County has two kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses an enterprise fund to account for its water 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. The County has one *Internal Service Fund* which is used to account for self insurance for health benefits.

Fiduciary Funds – Fiduciary funds are used to account for assets the County holds on behalf of others. The County has two agency funds.

Notes to 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 are on pages 35 – 70 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its law enforcement employees. Required supplementary information can be found in the notes on page 62 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the County exceeded liabilities by \$7,693,196. The County's net assets increased by \$8,218,015 for the fiscal year ended June 30, 2005. Net assets is reported in three categories: invested in capital assets net of related debt of \$25,859,966, restricted net assets of \$3,437,892, and unrestricted net assets of (\$21,604,662).

The invested in capital assets, net of related debt category is defined as the County's investment in County owned capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County'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 capital assets cannot be used to liquidate these liabilities.

Another category of net assets is restricted net assets. This represents resources that are subject to external restriction on how they may be used. The final category of net assets is unrestricted net assets. This balance may be used to meet the government's ongoing obligation to citizens and creditors. At June 30, 2005, the total unrestricted net assets reported a deficit of \$21,604,662. Of the County's net assets (\$ 3,437,892) represents resources that are subject to external restrictions on how they are to be used.

As with many counties in the State of North Carolina, the County's deficit in unrestricted net assets is due primarily to the portion of the County's outstanding debt incurred for the County Board of Education (the "school system") and Carteret Community College. Under North Carolina law, the County is responsible for providing capital funding for the school system and the community college. The County has chosen to meet its legal obligation to provide the school system capital funding by using a mixture of County funds and general obligation debt. The assets funded by the County; however, are owned and utilized by the school system and the community college, and are reported by those entities. Since the County, as the issuing government, acquires no capital assets, the County has incurred a liability without a corresponding increase in assets. At the end of the fiscal year, approximately \$46.28 million of the outstanding debt on the County's financial statements was related to assets included in the school system's and community college's financial statements. However, since the majority of this school system and community college related debt is general obligation debt, it is collateralized by the full faith, credit, and taxing power of the County. Accordingly, the County is authorized and required by State law to levy ad valorem taxes, without limit as to rate or amount, as may be necessary to pay the debt service on its general obligation bonds. Principal and interest requirements will be provided by an appropriation in the year in which they become due.

The decline in total net assets and the impact of the inclusion of the school system and community college debt without the corresponding assets was offset by the following positive operational initiatives and results:

- Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.03%.
- Continued low cost of debt due to the County's high bond rating.

Management's Discussion and Analysis
June 30, 2005

The County's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 33,011,884	\$ 31,119,535	\$ 101,782	\$ 108,932	\$ 33,113,666	\$ 31,228,467
Capital assets	25,976,050	23,708,547	6,891,787	4,996,180	32,867,837	28,704,727
Total assets	58,987,934	54,828,082	6,993,569	5,105,112	65,981,503	59,933,194
Long-term liabilities						
outstanding	50,743,463	54,892,598	2,987,872	607,600	53,731,335	55,500,198
Other liabilities	4,344,457	4,334,104	212,955	623,711	4,557,412	4,957,815
Total liabilities	55,087,920	59,226,702	3,200,827	1,231,311	58,288,747	60,458,013
Net assets:						
Invested in capital assets, net of related debt	21,956,051	22,154,331	3,903,915	4,392,900	25,859,966	26,547,231
Restricted	3,437,892	2,568,301	-	-	3,437,892	2,568,301
Unrestricted	(21,493,929)	(29,121,252)	(110,733)	(519,099)	(21,604,662)	(29,640,351)
Total net assets	\$ 3,900,014	\$ (4,398,620)	\$ 3,793,182	\$ 3,873,801	\$ 7,693,196	\$ (524,819)

Governmental activities: Governmental activities increased the County's net assets by \$8,298,634 from fiscal year 2004. Key elements of this increase are as follows:

- The County did not increase its General Fund ad valorem property tax rate from fiscal year 2004 to fiscal year 2005. The \$1.2 million or 3.4 percent growth in revenue is due to construction growth in the county.
- The County also had growth in sales tax. Sales tax increased 9% or approximately \$1.23 million from the prior fiscal year.
- General government charges for services are about over \$700,000 more than the previous fiscal year. This is primarily due to increases in the number of recorded transactions in register of deeds revenue collected; however, other general governmental revenue increased as well.
- The decrease in education expenses is due to the Beaufort Elementary School construction that was completed in fiscal year 2004; consequently the County had less education expenses in 2005.
- Cultural and recreation activities decreased approximately \$1.80 million during the year. This is primarily due to a beach nourishment project that was offset by intergovernmental funds from the state that was completed in fiscal year 2004.

Business-type activities: Business-type activities decreased the County's net assets by \$80,619. During fiscal year 2005 the County contracted the Phase II water line expansion. This project should be completed by December 2005, and the County anticipates adding 600 customers after the completion.

Carteret County, North Carolina

Management's Discussion and Analysis
June 30, 2005

The County's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 5,472,379	\$ 4,803,148	\$ 264,634	\$ 147,314	\$ 5,737,013	\$ 4,950,462
Operating grants and contributions	10,857,170	8,567,418	-	28,476	10,857,170	8,595,894
Capital grants and contributions	-	2,300,119	925	-	925	2,300,119
General revenues:						
Property taxes	37,240,867	36,025,572	-	-	37,240,867	36,025,572
Other taxes	18,828,672	16,967,530	-	-	18,828,672	16,967,530
Other	3,190,789	1,082,510	3,800	601	3,194,589	1,083,111
Total revenues	75,589,877	69,746,297	269,359	176,391	75,859,236	69,922,688
Expenses:						
General government	4,759,100	3,700,481	-	-	4,759,100	3,700,481
Public safety	12,715,313	11,636,799	-	-	12,715,313	11,636,799
Transportation	690,254	669,794	-	-	690,254	669,794
Economic and physical development	6,274,478	4,271,109	-	-	6,274,478	4,271,109
Environmental protection	2,565,112	2,964,017	-	-	2,565,112	2,964,017
Human services	14,295,871	14,105,489	-	-	14,295,871	14,105,489
Cultural and recreation	2,461,256	4,260,435	-	-	2,461,256	4,260,435
Education	21,085,306	27,615,077	-	-	21,085,306	27,615,077
Interest on long-term debt	2,373,932	3,153,395	-	-	2,373,932	3,153,395
Water	-	-	420,599	394,360	420,599	394,360
Total expenses	67,220,622	72,376,596	420,599	394,360	67,641,221	72,770,956
Increase (decrease) in net assets before transfers	8,369,255	(2,630,299)	(151,240)	(217,969)	8,218,015	(2,848,268)
Transfers	(70,621)	(70,000)	70,621	70,000	-	-
Increase (decrease) in net assets	8,298,634	(2,700,299)	(80,619)	(147,969)	8,218,015	(2,848,268)
Net assets, July 1, as adjusted for accounting change	(4,398,620)	(1,698,321)	3,873,801	4,021,770	(524,819)	2,323,449
Net assets, June 30	\$ 3,900,014	\$ (4,398,620)	\$ 3,793,182	\$ 3,873,801	\$ 7,693,196	\$ (524,819)

Financial Analysis of the County's Funds

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

Management's Discussion and Analysis
June 30, 2005

Governmental Funds: The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the County'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 County and the County's only major governmental fund. At the end of the current fiscal year, unreserved and undesignated fund balance of the General Fund was \$14,115,874, while total fund balance reached \$23,255,316. 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 undesignated fund balance represents 24.58 percent of total General Fund expenditures, while total fund balance represents 40.50 percent of that same amount.

At June 30, 2005, the governmental funds of the County reported a combined fund balance of \$26,009,800.

General Fund Budgetary Highlights:

During fiscal year 2005, the County's financial picture was good. Revenues exceeded budgeted revenues by \$3.13 million. The \$3.13 million is a combination of a higher ad valorem tax base, sales tax growth, and increases in permits and fees. This helped the County to increase its fund balance for the fourth consecutive year and finish the year in sound financial condition.

The County revised the budget on several occasions. Generally, budget amendments fall into one of four 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; 3) increases in appropriations that become necessary to maintain services; 4) to increase debt service for refunding existing debt. Total amendments to the General Fund increased estimated revenues by \$936,472 and appropriations by \$1,950,401.

As stated above, the actual operating revenues for the General Fund were more than the budgeted amount by \$3.13 million. The County's expenditures were less than the budgeted amount by \$1.67 million, and is mostly due to savings in Medicaid, general government and economic and physical development.

Proprietary Funds. The County'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 Fund at the end of the fiscal year amounted to a deficit of \$110,733. The primary factors affecting the finances of this fund were addressed in the discussion of the County's business-type activities.

Capital Asset and Debt Administration

Capital assets: The County's investment in capital assets for its governmental and business-type activities as of June 30, 2005, totals \$32,867,837 (net of accumulated depreciation). These assets include buildings, automotive equipment, office and other equipment, and water plant and lines.

Major capital asset transactions during the year include:

- Accepting title to the "old" Beaufort Elementary School and land. The title transfer between the Board of Education and the County is due to completing construction of the "new" Beaufort Elementary School.
- Purchased land for future solid waste convenience sites.
- Completion of the Eastern Park expansion and development.
- Computer Servers and E-911 equipment.
- Purchase of vehicles in departments including 5 Sheriff Department vehicles.

Management's Discussion and Analysis
June 30, 2005
The County's Capital Assets
Figure 4

Additional information on the County's capital assets can be found in Note 5 of the basic financial statements.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 3,736,879	\$ 3,006,582	\$ 52,500	\$ 52,500	\$ 3,789,379	\$ 3,059,082
Buildings	17,827,721	16,943,859	2,001,527	2,072,169	19,829,248	19,016,028
Water lines	-	-	2,170,455	2,282,153	2,170,455	2,282,153
Vehicles	925,355	991,695	11,746	15,455	937,101	1,007,150
Equipment	637,987	371,072	7,823	16,356	645,810	387,428
Airport facilities	348,813	423,981	-	-	348,813	423,981
Other improvements	2,232,730	1,492,119	-	-	2,232,730	1,492,119
Construction in progress	266,565	479,239	2,647,736	557,547	2,914,301	1,036,786
Total	\$ 25,976,050	\$ 23,708,547	\$ 6,891,787	\$ 4,996,180	\$ 32,867,837	\$ 28,704,727

Long-Term Debt. As of June 30, 2005, the County had total bonded debt outstanding of \$27,650,000, all of which is debt backed by the full faith and credit of the County. All other debt is covered by pledged collateral and is subject to appropriation. A summary of total long-term debt is shown in Figure 5.

General Obligation, Capital Leases and Installment Notes Payable
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 27,650,000	\$ 29,695,000	\$ -	\$ -	\$ 27,650,000	\$ 29,695,000
Certificate of participation	20,545,000	22,400,000	-	-	20,545,000	22,400,000
Installment note payable	2,100,000	2,516,572	2,980,303	589,608	5,080,303	3,106,180
Capital lease	-	-	7,569	13,672	7,569	13,672
Total long-term debt	\$ 50,295,000	\$ 54,611,572	\$ 2,987,872	\$ 603,280	\$ 53,282,872	\$ 55,214,852

The County's total debt decreased by \$1,931,980 (excluding deferred amounts) or 3.5% during the past fiscal year. The decrease in governmental debt of \$4.1 million is due to principal payments during the year. The water fund's debt increased \$2.4 million due to the phase II expansion that is funded by a state revolving loan.

The County's most recent bond ratings are shown below:

Moody's Investor Services	Aa3
Standard & Poor's	Aa-
Fitch IBCA	AA-

This bond rating is a clear indication of the sound financial condition of the County. This achievement is a primary factor in keeping interest costs low on the County's outstanding debt.

The State of North Carolina limits 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 at June 30, 2005 for the County is \$578,982,105.

Additional information regarding the County's long-term debt can be found in Note 9 on pages 55 - 60 of this report.

Management's Discussion and Analysis
June 30, 2005

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the County. On June 30, 2005, the unemployment rate for the County averaged 4.59%, compared to the 4.66% for FY 2004. This compares favorably to the state's average unemployment rate of 5.29% for FY 2005. In addition, residential and commercial development continues to grow in the County. This growth along with other revenue growth such as sales tax has enabled the County to continue meeting its capital needs and demands for services without increasing the ad valorem tax rate for four years.

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities: The County has approved a \$64.92 million general fund budget for fiscal year 2006 which represents a \$4.44 million or 7.35% increase over fiscal year 2005. The increases are mostly in funding the public school system and the community college, other increases are in general government, human services, economic and physical development and cultural and recreation. There is no ad valorem tax increase for the General Fund. Other revenues are budgeted conservatively. The FY 2006 fund balance appropriation for the General Fund is \$1,230,000.

Education is the largest service area in terms of its portion of total expenditures. Capital and operating education expenditures total \$18,802,289 or 28.96% of the FY 2006 budget. This area includes funding for the public school system and the Carteret County Community College. Budgeted expenditures for education operating expenses increase \$65,000 which will increase the per pupil allocation to \$2,060. School capital funding is \$691,158 increase or 40%.

In addition, the Board of Commissioners has invested in the County departments for fiscal year 2006. The Board has funded replacing vehicles and capital equipment, investing in parks by replacing playground equipment, and investing in staff. The Board funded twenty new positions in various under staffed departments as well as funding cost of living adjustments and merit pay increases.

On November 8, 2005, the voters approved a \$50.01 million school bond. These bonds will fund building expansions and extensive renovations to our public schools. The County anticipates issuing the first series of bonds in 2006.

Requests for Information

This report is designed to provide an overview of the County'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 Director of Finance, Carteret County, Courthouse Square, Beaufort, NC 28516.

Carteret County, North Carolina

Statement of Net Assets
June 30, 2005

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 22,090,084	\$ 62,166	\$ 22,152,250
Receivables (net)	8,998,960	39,616	9,038,576
Due from component unit	337,424	-	337,424
Inventories	-	-	-
Prepaid items	-	-	-
Restricted assets:			
Cash and investments	1,138,400	-	1,138,400
Deferred charges, issuance cost	447,016	-	447,016
Other assets	-	-	-
Capital assets:			
Land, improvements, and construction in progress	4,003,444	2,700,236	6,703,680
Other capital assets, net of depreciation	21,972,606	4,191,551	26,164,157
Total capital assets	25,976,050	6,891,787	32,867,837
Total assets	58,987,934	6,993,569	65,981,503
Liabilities			
Accounts payable and accrued expenses	3,721,536	181,586	3,903,122
Accrued interest payable	599,716	4,928	604,644
Customer deposits	-	22,380	22,380
Due to primary government	-	-	-
Unearned revenue	23,205	-	23,205
Long-term liabilities:			
Due within one year	4,516,272	41,046	4,557,318
Due in more than one year	46,227,191	2,950,447	49,177,638
Total liabilities	55,087,920	3,200,387	58,288,307
Net Assets			
Invested in capital assets, net of related debt	21,956,051	3,903,915	25,859,966
Restricted for:			
Public Safety	588,965	-	588,965
Economic Development	1,737,761	-	1,737,761
Cultural and Recreation	62,739	-	62,739
Register of Deeds	113,479	-	113,479
Human Services	934,948	-	934,948
Other purposes	-	-	-
Unrestricted (deficit)	(21,493,929)	(110,733)	(21,604,662)
Total net assets	\$ 3,900,014	\$ 3,793,182	\$ 7,693,196

See Notes to Financial Statements.

Component Units				
Beaufort- Morehead City Airport Authority	Carteret County Tourism Development Authority	Carteret County General Hospital Corporation	Carteret County ABC Board	
\$ 486,288	\$ 1,273,392	\$ 25,783,480	\$ 1,140,746	
3,143	449,137	15,475,785	86	
-	-	-	-	
-	-	1,431,897	910,394	
2,794	-	850,538	1,634	
-	-	6,203,058	-	
-	-	-	-	
-	-	3,378,817	-	
331,595	-	3,030,205	202,424	
294,270	138,708	31,935,017	363,491	
625,865	138,708	34,965,222	565,915	
1,118,090	1,861,237	88,088,797	2,618,775	
8,599	33,657	10,919,690	837,368	
-	-	-	-	
-	-	-	-	
-	-	-	143,261	
-	-	5,086,377	-	
17,530	14,689	1,268,778	5,000	
176,633	-	5,381,164	10,000	
202,762	48,346	22,656,009	995,629	
431,702	138,708	28,315,280	550,915	
-	-	-	-	
-	-	-	-	
-	-	-	-	
-	-	-	-	
418,815	449,137	114,711	-	
64,811	1,225,046	37,002,797	1,072,231	
\$ 915,328	\$ 1,812,891	\$ 65,432,788	\$ 1,623,146	

Carteret County, North Carolina

Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,759,100	\$ 2,480,824	\$ 436,969	\$ -
Public safety	12,715,313	314,680	644,075	-
Transportation	690,254	74,164	154,036	-
Economic and physical development	6,274,478	659,399	1,966,971	-
Environmental protection	2,565,112	1,305,582	52,000	-
Human services	14,295,871	417,154	7,115,185	-
Cultural and recreation	2,461,256	220,576	17,675	-
Education	21,085,306	-	470,259	-
Interest on long-term debt	2,373,932	-	-	-
Total governmental activities	67,220,622	5,472,379	10,857,170	-
Business-type activities:				
Water	420,599	264,634	-	925
Total primary government	\$ 67,641,221	\$ 5,737,013	\$ 10,857,170	\$ 925
Component units:				
Airport Authority	123,930	67,096	549,274	-
Tourism Development Authority	1,921,376	1,990,791	150,000	-
Hospital	75,338,697	78,452,549	391,525	-
ABC Board	6,347,518	6,425,944	-	-
Total component units	\$ 83,731,521	\$ 86,936,380	\$ 1,090,799	\$ -
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Local option sales tax				
Other taxes and licenses				
Restricted intergovernmental				
Unrestricted intergovernmental				
Investment earnings, unrestricted				
Miscellaneous, unrestricted				
Sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Carteret County			
			Beaufort - Morehead City Airport Authority	Tourism Development Authority	Carteret County General Hospital Corporation	Carteret County ABC Board
\$ (1,841,307)	\$ -	\$ (1,841,307)				
(11,756,558)	-	(11,756,558)				
(462,054)	-	(462,054)				
(3,648,108)	-	(3,648,108)				
(1,207,530)	-	(1,207,530)				
(6,763,532)	-	(6,763,532)				
(2,223,005)	-	(2,223,005)				
(20,615,047)	-	(20,615,047)				
(2,373,932)	-	(2,373,932)				
(50,891,073)	-	(50,891,073)				
-	(155,040)	(155,040)				
(50,891,073)	(155,040)	(51,046,113)				
			\$ 492,440	\$ -	\$ -	\$ -
			-	219,415	-	-
			-	-	3,505,377	-
			-	-	-	78,426
			492,440	219,415	3,505,377	78,426
37,240,867	-	37,240,867	-	-	-	-
14,334,170	-	14,334,170	-	-	-	-
4,494,502	-	4,494,502	-	-	-	-
-	-	-	75,000	-	-	-
155,208	-	155,208	-	-	-	-
612,987	3,800	616,787	4,956	-	308,863	9,726
2,422,594	-	2,422,594	23,527	24,589	-	-
-	-	-	-	1,983	-	-
(70,621)	70,621	-	-	-	-	-
59,189,707	74,421	59,264,128	103,483	26,572	308,863	9,726
8,298,634	(80,619)	8,218,015	595,923	245,987	3,814,240	88,152
(4,398,620)	3,873,801	(524,819)	319,405	1,566,904	61,618,548	1,534,994
\$ 3,900,014	\$ 3,793,182	\$ 7,693,196	\$ 915,328	\$ 1,812,891	\$ 65,432,788	\$ 1,623,146

Carteret County, North Carolina

Balance Sheet - Governmental Funds
June 30, 2005

Assets	Governmental Fund Types		
	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and investments	\$ 19,617,545	\$ 3,011,829	\$ 22,629,374
Receivables, net	6,777,712	1,541,398	8,319,110
Due from other funds	358,228	-	358,228
Due from component units	337,424	-	337,424
Total assets	\$ 27,090,909	\$ 4,553,227	\$ 31,644,136
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,061,209	\$ 1,197,449	\$ 3,258,658
Due to other funds	43,695	358,228	401,923
Unearned revenue	23,205	-	23,205
Deferred revenue	1,707,485	243,066	1,950,551
Total liabilities	3,835,594	1,798,743	5,634,337
Fund balances:			
Reserved for Register of Deeds	113,478	-	113,478
Reserved for Recreation Districts	62,739	-	62,739
Reserved for Beach Nourishment	1,340,869	-	1,340,869
Reserved by State statute	5,407,652	1,301,271	6,708,923
Reserved for Sheriff's fund	49,755	-	49,755
Reserved for health programs	934,948	-	934,948
Unreserved:			
Designated for subsequent year's expenditures	1,230,000	310,643	1,540,643
Undesignated - General fund	14,115,874	-	14,115,874
Undesignated (deficit) - Special revenue funds	-	(740,779)	(740,779)
Undesignated - Capital projects funds	-	1,883,349	1,883,349
Total fund balance	23,255,315	2,754,484	26,009,799
Total liabilities and fund balance	\$ 27,090,909	\$ 4,553,227	\$ 31,644,136
Amounts reported for governmental activities in the statement of net assets are different because:			
Total fund balances for governmental funds			\$ 26,009,799
Capital assets used in governmental activities are financial resources and, therefore are not reported in the funds			25,976,650
Liabilities for earned but deferred revenues not in the fund statements			1,950,551
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements			676,506
Deferred charges for 2004 COPS and 2005 General Obligation refunding Issuance cost			447,016
Internal service fund net assets			183,271
Accrued interest payable on long-term debt is not a current financial obligation and, therefore, is not in the funds			(599,716)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds			(50,743,463)
Net assets of governmental activities			\$ 3,900,614

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2005

	Governmental Fund Types		
	General	Other Governmental Funds	Total Governmental Funds
Revenue			
Ad valorem taxes	\$ 33,279,691	\$ 3,892,067	\$ 37,171,758
Other taxes and licenses	13,039,752	5,788,920	18,828,672
Permits and fees	3,093,945	-	3,093,945
Intergovernmental	9,517,071	1,820,551	11,337,622
Sales and services	1,742,529	-	1,742,529
Interest	506,681	106,306	612,987
Miscellaneous	325,412	53,865	379,277
Total revenue	61,505,081	11,661,709	73,166,790
Expenditures			
Current:			
General government	4,190,354	-	4,190,354
Public safety	6,784,066	5,688,659	12,472,725
Transportation	493,593	-	493,593
Environmental protection	2,744,907	-	2,744,907
Economic and physical development	1,517,400	3,297,919	4,815,319
Human services	14,094,168	-	14,094,168
Culture and recreation	2,240,196	-	2,240,196
Education	18,699,023	-	18,699,023
Capital outlay	-	5,161,345	5,161,345
Debt service:			
Principal retirement	4,316,572	-	4,316,572
Interest and fees	2,352,193	-	2,352,193
Total expenditures	57,432,472	14,147,923	71,580,395
Revenue over (under) expenditures	4,072,609	(2,486,214)	1,586,395
Other financing sources (uses)			
Transfers in	1,062,771	1,477,172	2,539,943
Transfers out	(1,206,566)	(1,403,998)	(2,610,564)
Total other financing sources (uses)	(143,795)	73,174	(70,621)
Net change in fund balance	3,928,814	(2,413,040)	1,515,774
Fund balances			
Beginning	19,326,501	5,167,524	24,494,025
Ending	\$ 23,255,315	\$ 2,754,484	\$ 26,009,799

See Notes to Financial Statements.

Carteret County, North Carolina

Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities
 Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:	
Net changes in fund balances - total governmental funds	\$ 1,515,774
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	(77,901)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	2,454,846
Internal service fund is used for self-insured health insurance costs to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets	276,878
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	4,269,844
Some expenses including depreciation that are 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	(140,807)
Total changes in net assets of governmental activities	\$ 8,298,634

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund
Year Ended June 30, 2005

	General Fund			Variance
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenue				
Ad valorem taxes	\$ 32,880,067	\$ 33,049,067	\$ 33,279,691	\$ 230,624
Other taxes and licenses	11,508,500	11,489,500	13,039,752	1,550,252
Permits and fees	2,207,020	2,297,431	3,093,945	796,514
Intergovernmental	8,582,539	9,314,095	9,517,071	202,976
Sales and services	1,836,450	1,723,560	1,742,529	18,969
Interest	260,000	260,000	506,681	246,681
Miscellaneous	160,578	237,973	325,412	87,439
Total revenue	57,435,154	58,371,626	61,505,081	3,133,455
Expenditures				
Current:				
General government	4,167,129	4,469,509	4,190,354	279,155
Public safety	6,158,215	6,983,325	6,784,066	199,259
Transportation	537,858	566,747	493,593	73,154
Environmental protection	2,470,196	2,787,713	2,744,907	42,806
Economic and physical development	1,702,872	1,765,138	1,517,400	247,738
Human services	14,582,813	14,838,554	14,094,168	744,386
Culture and recreation	2,204,121	2,302,919	2,240,196	62,723
Education	18,639,439	18,699,139	18,699,023	116
Debt service:				
Principal retirement	4,317,000	4,317,000	4,316,572	428
Interest and fees	2,367,900	2,367,900	2,352,193	15,707
Total expenditures	57,147,543	59,097,944	57,432,472	1,665,472
Revenue over (under) expenditures	287,611	(726,318)	4,072,609	4,798,927
Other financing sources (uses)				
Transfers in	830,000	879,000	1,062,771	183,771
Transfers out	(1,034,600)	(1,206,566)	(1,206,566)	-
Proceeds of refunding bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Contingency reserves	(777,547)	(177,329)	-	177,329
Appropriated fund balance	694,536	1,231,213	-	(1,231,213)
Total other financing sources (uses)	(287,611)	726,318	(143,795)	(870,113)
Revenue and other financing sources over (under) expenditures and other uses	\$ -	\$ -	3,928,814	\$ 3,928,814
Fund balances				
Beginning			19,326,501	
Ending			<u>\$ 23,255,315</u>	

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Fund Net Assets - Proprietary Funds
June 30, 2005

Assets	Water Fund	Internal Service Fund
Current Assets		
Cash	\$ 62,166	\$ 599,110
Receivables, net	39,616	3,344
Due from other fund	-	43,695
Total current assets	<u>101,782</u>	<u>646,149</u>
Noncurrent Assets		
Capital assets:		
Land, improvements, and construction in progress	2,700,236	-
Other capital assets, net of depreciation	4,191,551	-
Total capital assets	<u>6,891,787</u>	<u>-</u>
Total noncurrent assets	<u>6,891,787</u>	<u>-</u>
Total assets	<u>6,993,569</u>	<u>646,149</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	185,207	462,878
Customer deposits	22,380	-
Accrued interest payable	4,928	-
Total current liabilities	<u>212,515</u>	<u>462,878</u>
Long-Term Liabilities		
Lease payable	7,569	-
Installment loan payable	2,980,303	-
Total long-term liabilities	<u>2,987,872</u>	<u>-</u>
Total liabilities	<u>3,200,387</u>	<u>462,878</u>
Net Assets		
Invested in capital assets, net of related debt	3,903,915	-
Unrestricted (deficit)	(110,733)	183,271
Total net assets	<u>\$ 3,793,182</u>	<u>\$ 183,271</u>

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds
 Year Ended June 30, 2005

	Water Fund	Internal Service Fund
Operating revenues		
Charges for services	\$ 264,634	\$ 2,332,110
Total operating revenues	<u>264,634</u>	<u>2,332,110</u>
Operating expenses		
Water plant operations	191,881	-
Depreciation	194,582	-
Health insurance claims	-	2,055,232
Total operating expenses	<u>386,463</u>	<u>2,055,232</u>
Operating income (loss)	<u>(121,829)</u>	<u>276,878</u>
Nonoperating revenues (expenses)		
Interest revenue	3,800	-
Interest expense	(34,136)	-
Total nonoperating revenue (expenses)	<u>(30,336)</u>	<u>-</u>
Loss before capital contributions	(152,165)	276,878
Capital contributions	925	-
Income (loss) before transfers	<u>(151,240)</u>	<u>276,878</u>
Transfers:		
Transfers in	70,621	-
Change in net assets	<u>(80,619)</u>	<u>276,878</u>
Total net assets		
Beginning	3,873,801	(93,607)
Ending	<u>\$ 3,793,182</u>	<u>\$ 183,271</u>

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2005

	Water Fund	Internal Service Fund
Cash Flows From Operating Activities		
Cash received from customers	\$ 247,548	\$ 2,286,483
Cash received from state reimbursements	-	-
Cash paid for goods and services	(126,846)	(1,751,354)
Cash paid to employees for services	(96,017)	-
Customer deposits received	3,450	-
Net cash provided by operating activities	<u>28,135</u>	<u>535,129</u>
Cash Flows From Noncapital Financing		
Transfers in	<u>70,621</u>	-
Cash Flows From Capital and Related Financing Activities		
Capital contributions	925	-
Proceeds from installment loans	2,421,727	-
Principal paid on installment debt and capital lease	(37,135)	-
Interest paid on installment debt and capital lease	(34,409)	-
Acquisition and construction of capital assets	(2,477,900)	-
Net cash used in capital and related financing activities	<u>(126,792)</u>	-
Cash Flows From Investing Activities		
Interest on investments	<u>3,800</u>	-
Net increase (decrease) in cash and cash equivalents	<u>(24,236)</u>	<u>535,129</u>
Cash and cash equivalents:		
July 1, 2004	86,402	63,981
June 30, 2005	<u>\$ 62,166</u>	<u>\$ 599,110</u>

(Continued)

Carteret County, North Carolina

Statement of Cash Flows - Proprietary Funds (Continued)
 Year Ended June 30, 2005

	Water Fund	Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash		
Provided By Operating Activities		
Operating income (loss)	\$ (121,829)	\$ 276,878
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	194,582	-
Changes in assets and liabilities:		
Increase in accounts receivable	(17,086)	(45,627)
Increase (decrease) in accounts payable and accrued liabilities	(30,982)	303,878
Increase in customer deposits	3,450	-
Net cash provided by operating activities	\$ 28,135	\$ 535,129
Supplemental Schedule of Noncash Investing, Capital and Financing Activities		
Acquisition of capital asset under capital lease	\$ 18,546	\$ -
Accounts payable used for capital assets	\$ 168,661	\$ -

See Notes to Financial Statements.

Carteret County, North Carolina

Statement of Fiduciary Net Assets - Fiduciary Funds
June 30, 2005

Assets	Agency Funds
Cash and cash equivalents	<u>\$ 50,996</u>
Liabilities	
Accounts payable and accrued liabilities	<u>\$ 50,996</u>

See Notes to Financial Statements.

Notes to Financial Statements

These notes are intended to communicate information necessary for a fair presentation of financial position and changes in financial position that are not readily apparent from or cannot be included in the financial statements themselves. The notes supplement the financial statements, are an integral part thereof, and are intended to be read in conjunction with the financial statements.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies

Nature of operations

Carteret County, which is governed by a seven-member board of commissioners, is one of the 100 counties established in North Carolina under General Statute 153A-10. The County is located on the coast of North Carolina, with its seat of government in the Town of Beaufort. The County is responsible for providing a full range of governmental services, including police and fire protection to residents in unincorporated areas of the County, health and social services, recreational programs, and operational and capital funding support for the public school systems.

Reporting entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the County and its component units; legally separate entities for which the County is financially accountable. The discretely presented component units presented below are reported in separate columns in the County's government-wide financial statements in order to emphasize that they are legally separate from the County.

Carteret County Industrial Facility and Pollution Control Financing Authority: Carteret County Industrial Facility and Pollution Control Financing Authority (the "Authority") exists to issue and service revenue bond debt of private businesses for economic development purposes. The Authority is governed by a seven-member board of commissioners, all of whom are appointed by the county commissioners. The County can remove any commissioner of the Authority with or without cause. The Authority has no financial transactions or account balances; therefore, it is not presented in the combined financial statements. The Authority does not issue separate financial statements.

Beaufort - Morehead City Airport Authority: The Beaufort - Morehead City Airport Authority is an entity created by resolution of the Carteret County Board of Commissioners for the purpose of management and maintenance of the airport located in Carteret County. The County appoints a majority of the Authority board members. The Authority also receives a majority of its revenue from County sources. The airport has a June 30 year-end.

Carteret County Tourism Development Authority: The Carteret County Tourism Development Authority ("TDA") is an entity created by resolution of the Carteret County Board of Commissioners for the purpose of management of the promotion and development of tourism in Carteret County. The County does not have authority to designate management of the Authority nor remove board members of the Authority. However, the Authority must submit its annual budget and subsequent budget amendments to the Board of County Commissioners for approval and receives substantially all its revenue from an occupancy tax implemented, and revocable, by the County Commissioners. The TDA has a June 30 year-end.

Carteret County General Hospital Corporation ("Hospital"): The Hospital is a public hospital operated by a nonprofit corporation, providing healthcare to residents of Carteret County. The Hospital leases its existing facilities and all future improvements from the County. The County appoints the Hospital's governing board and can remove board members at will. The Hospital must receive approval from the County Commissioners before issuing debt. The Hospital has a September 30 year-end.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Carteret County Alcoholic Beverage Control Board ("ABC Board"): The ABC Board is governed by a board appointed by the County Commissioners. The ABC Board is required by State statute to distribute surpluses to the General Fund of the County. The ABC Board has a June 30 year-end.

Complete financial statements for the individual component units may be obtained at the administrative offices of those entities.

- Beaufort-Morehead City Airport Authority, Highway 101 East, Beaufort, NC 28516
- Carteret County Tourism Development Authority, Highway 70 West, Morehead City, NC 28557
- Carteret County General Hospital Corporation, PO Box 1619, Morehead City, NC 28557
- Carteret County ABC Board, Highway 70 East, Beaufort, NC 28516

The following corporation is included as a blended component:

County of Carteret Public Facilities Financing Corporation: The County of Carteret Public Facilities Financing Corporation is a nonprofit corporation. The "Corporation" was organized and shall be operated exclusively for the purpose of providing debt financing for the County, to fulfill various statutory obligations involving but not limited to, purchase and sale, construction and/or lease of real estate and improvements, facilities, and equipment. The Corporation has a three-member board of directors who are established through the bylaws of the Articles of Incorporation and will consist of the County Manager, Deputy Clerk to the Board, and Chair of the County Commissioners. The County has entered into Construction and Repayment Contracts with the corporation. The corporation's assets, fund balance, revenue and expenditures have been included in the County Capital Improvements Fund at June 30, 2005.

Summary of significant accounting policies

The basic financial statements of Carteret County, North Carolina have been prepared in conformity with generally accepted accounting principles ("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.

Basis of presentation

Government-wide statements: The statement of net assets and the statement of activities display information about the primary government (the "County") and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the County and for each function of the County'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 County's funds. Separate statements for each fund category – governmental, proprietary, and fiduciary 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 nonmajor funds, as applicable.

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.

The County reports the following major governmental fund:

General Fund: This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The County reports the following major enterprise fund:

Water Fund: This fund is used for the operations of the County's Water System.

The County also reports an Internal Service Fund: This fund is used to account for the County's self-insured health insurance plan.

The County reports the following fiduciary fund:

Agency Fund: Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: The Social Services Trust Fund, which accounts for moneys deposited within the Department of Social Services for the benefit of various clients and the Sheriff's Department Fund which accounts for the collection and distribution of assets in conjunction with the clerk of court for judgments and claims that have been assessed.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Measurement focus and basis of accounting

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

Government-wide, proprietary, and fiduciary fund financial statements: The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds, which have no measurement focus. The government-wide, proprietary fund, and fiduciary 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. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, 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, entitlements, 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, 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 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 revenues of the County enterprise funds are charges to customers for sales and services. The County also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the 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 nonoperating revenues and expenses.

Government-wide and enterprise fund financial statements follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

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, revenue is 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 under capital leases are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

The County recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. State shared revenues, sales tax, property taxes, federal grants funding federal mandates, and most donations are examples of nonexchange transactions.

The County considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem property taxes are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the subsequent year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Carteret County is responsible for billing and collecting the property taxes on all registered motor vehicles on behalf of all municipalities in the County. For those 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, taxes for vehicles registered from March 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes, which were billed during this period, are shown as a receivable on these financial statements. Those taxes for vehicles registered from March 1 through the fiscal year end apply to the fiscal year 2005-2006 and are not shown as receivables at June 30, 2005. For those motor vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which the interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the County's operations during the 2005 fiscal year.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the County 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. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

Under the terms of grant agreements, the County 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 County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Budgets and budgetary accounting: An annual budget is adopted on the modified accrual basis for the general fund, the special revenue funds (excluding 2004 CDBG Scattered Site and CDBG 2001 Laurel Road Fund), the capital projects funds (excluding the Western Library Fund, and Carteret Community College Fund) and the Water Operating Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for those capital projects funds and special revenue funds which do not adopt annual budgets and water construction projects. In accordance with the Local Government Budget and Fiscal Control Act, the County follows these procedures in establishing the budgetary data reflected in the financial report:

1. The County Manager submits to the Board of Commissioners a proposed operating budget for the fiscal year commencing the following July 1. The operational budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance by June 30 each year.

The Board of Commissioners may amend the budget ordinance at any time after its adoption as long as the amended ordinance continues to meet the requirements of North Carolina's "Local Government Budget and Fiscal Control Act". No amendment may change the property tax levy unless the Board of Commissioners is so ordered by competent authority. During the year, several supplementary appropriations to the original budget were necessary. Individual amendments to the ordinance were not material in relation to the original appropriations, and all amendments were legally made.

Under State statute, actual expenditures cannot exceed budgetary appropriations at the level at which the budget ordinance is formally approved. The County's budget ordinance authorizes expenditures by department total for the general fund and the special revenue funds, and at the object level for the capital projects funds. All budgets are fixed in nature. The County Manager is authorized to approve transfers between departments not to exceed \$20,000. Transfers between departments that exceed \$20,000 or any transfers between funds require Board approval. For internal management purposes, the budgets are detailed by line item within each department and entered into the accounting records. Comparisons of actual expenditures to budget are made on an ongoing basis.

Deposits and investments: All deposits of the County, Carteret General Hospital Corporation ("Hospital"), Carteret County ABC Board ("ABC Board"), Carteret County Tourism Development Authority ("TDA"), and Beaufort-Morehead City Airport Authority ("Airport") are made in board-designated official depositories and are secured as required by G.S. 159-31. The County, the Hospital, the ABC Board, the TDA, and Airport may designate as an official depository any bank or savings association whose principal office is located in North Carolina. Also, the County, the Hospital, the ABC Board, the TDA, and the Airport may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

State statute (G.S. 159-30) authorizes the County and its component units 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 banker's acceptances; and the North Carolina Capital Management Trust ("NCCMT"), an SEC registered 2a-7 mutual fund.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

The County's money market investments with a maturity of more than one year at acquisition and nonmoney-market investments are carried at fair value as determined by quoted market prices. The NCCMT Cash Portfolio's securities are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued based on a computerized matrix system and/or appraisals by a pricing service. Money market investments that have a remaining maturity at the time of purchase of one year or less and nonparticipating interest earnings and investment contracts are reported at amortized cost.

Cash and cash equivalents: The County pools money from several funds to facilitate disbursements to maximize investment income. Investment earnings are allocated to all funds based on the cash balance outstanding at the end of each month. Cash and cash equivalents of component units include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired.

Restricted cash and investments: Certain proceeds of debt issuances are classified as restricted cash and investments because their use is limited by applicable debt instruments.

Ad valorem taxes receivable: Ad valorem taxes are not recognized as revenue in the governmental fund financial statements because they are not considered to be both "measurable and available". The receivable amount is reduced by an allowance for doubtful accounts equal to the percent of the original levy which has normally been written off based on past experience. An amount equal to the taxes receivable that was not recognized as revenue is shown as a deferred revenue.

The property tax calendar for Carteret County, North Carolina according to North Carolina general statutes is as follows:

Levy date	July 1
Due date (lien date)	September 1
Past due date	January 6

The taxes for the current fiscal year are generally based on January 1, 2004 assessed values.

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.

Inventories and prepaid items: Inventories of the Hospital and the ABC Board are valued at the lower of cost, on a first-in, first-out ("FIFO") basis, or market. The Hospital inventory consists of expendable items, including pharmaceuticals and general supplies, held for consumption. The Hospital inventories are recorded as expenses when consumed rather than when purchased. The ABC Board inventory consists of alcoholic beverages held for sale. The Airport Authority utilizes the consumption method for prepaid items.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Capital assets: Capital assets of the County are not capitalized in the governmental fund used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and capitalized and reported in the government-wide financial statements as capital assets of governmental activities. Capital assets are capitalized in proprietary fund financial statements and in business-type activities of the government-wide financial statements. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The County has no significant, other than the water system, amount of public domain or infrastructure fixed assets. Minimum capitalization costs are as follows: buildings, improvements, and infrastructure \$50,000; furniture and equipment, \$5,000; and vehicles, \$10,000. The cost of normal maintenance and repairs that do not add to the value of the capital asset or materially extend assets' lives are not capitalized. Also, the County has elected not to capitalize interest costs as a component of the cost of capital assets constructed for its use in governmental activities.

The County holds title to certain Carteret County Board of Education properties which have not been included in capital assets. The properties have been deeded to the County to permit installment purchase financing of acquisition and construction costs and to permit the County to receive refunds of sales tax paid for construction costs. Agreements between the County and the Board of Education give the Board of Education full use of the facilities, full responsibility for maintenance of the facilities, and provide that the County will convey title to the property back to the Board of Education, once all restrictions of the financing agreements and all sales tax reimbursement requirements have been met. The properties are reflected as capital assets in the financial statements of the Carteret County Board of Education. Revenues and expenditures related to these construction projects are reflected in governmental funds financial statements of Carteret County during the duration of construction.

Capital assets of the Hospital, the ABC Board and the TDA are recorded at original cost at the time of acquisition. Capital assets donated to these entities for operations are recorded at the estimated fair market value at the date of donation. Any interest incurred during the construction phase of the capital assets of the Hospital or the ABC Board is reflected in the capitalized value of the asset constructed. The Airport Authority does not own any real property but utilizes facilities provided by the County. All airport real property assets owned by the County are included in the government-wide financial statements as assets of the County. The County owns legal title to all Hospital facilities and improvements under a lease agreement which allows the Hospital unrestricted use of those facilities. The County's policy is to report these assets in the Hospital component unit.

Capital assets of the County, Hospital and the ABC Board are depreciated (expensed) over their estimated useful lives on a straight-line basis as follows:

	<u>Useful Lives</u>
Buildings and improvements	10 - 40 years
Furniture and equipment	4 - 20 years
Improvements other than building	5 - 20 years

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Capital assets of the TDA are depreciated on a straight-line basis over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	40
Improvements	20
Furniture and equipment	7
Vehicles	5
Computer equipment	3

The Airport's capital assets are depreciated using the straight-line method over the following estimated useful lives: buildings and improvements and infrastructure 30 years; furniture and equipment 10 years; and vehicles 7 years.

Amortization of bond issuance costs: Bond issuance costs incurred are deferred and amortized over the life of the related bond issue using the straight-line method.

In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated absences: The vacation policies of the County, the Hospital, and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the County's government-wide and proprietary funds, the Airport, TDA, Hospital, and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned and are accounted for on a LIFO basis, assuming that employees are taking time as it is earned.

The sick leave policies of the County, the Airport, TDA, Hospital, and the ABC Board 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. In accordance with the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Long-term obligations: In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing source and is not considered fund liabilities.

In accordance with GASB Statement No. 23, an unamortized charge, the difference between the reacquisition price and the net carrying amount of old debt on refundings of debt, is deferred and amortized to interest expense using the proportionate- to stated-interest method in governmental type activities. The unamortized charge is reported as a deduction from long-term debt.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Bond discounts and premiums: In the government-wide and proprietary fund financial statements, bond discounts and premiums are deferred and amortized over the life of the bonds using the proportionate-to-stated-interest method. Long-term debt is reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts during the current period. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

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: Fund balances are recognized in the governmental funds financial statements. Reservations or restrictions of fund balances represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

State law [G.S. 159-13 (b) (16)] restricts the appropriation of fund balance 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 funds classify fund balances as follows:

Reserved

- Reserved for Register of Deeds — portion of fund balance constituting the Automation Enhancement and Preservation Fund, funded by 10% of the fees collected and maintained by the register of deeds office. The funds are available for appropriation but are legally restricted for computer and imaging technology in the register of deeds office.
- Reserved for Recreation Districts — represents amounts restricted for specific recreation purposes.
- Reserved for Beach Nourishment — represents amount reserved for beach nourishment.
- Reserved by State statute — portion of fund balance not available for appropriation after remaining reserves not available for appropriation have been segregated. This generally includes accounts receivable and amounts due from other funds, which are not offset by deferred revenues.
- Reserved for Sheriff's fund — represents amounts restricted for expenditures relating to special drug programs and concealed weapons programs.
- Reserved for health programs — represents amounts restricted to expenditures in specific health programs.

Unreserved

- Designated — portion of total fund balance appropriated to the following year's budget.
- Undesignated — portion of total fund balance available for appropriation, which is uncommitted at June 30, 2005.

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. The net adjustment of \$22,109,785 consists of several elements as follows:

<u>Description</u>	<u>Amount</u>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	\$ 43,200,620
Less accumulated depreciation	17,224,570
Net capital assets	<u>25,976,050</u>
Accrued interest receivable less the amount claimed as unearned revenue in the government-wide statements as these funds are not available and therefore deferred in the fund statements	676,506
Deferred charges for 2003 COPS Issuance costs and 2004 General Obligation Issuance costs	447,016
Liabilities for revenue deferred but earned therefore recorded in the fund statements but not in the government-wide statements	1,950,551
Internal service fund is used for self-insured health insurance costs to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets	183,271
Accrued interest is not due and payable in the current period and therefore is not reported in the funds	(599,716)
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund statements:	
Bonds, leases and installment financing	(50,295,000)
Premiums on refundings	(1,127,892)
Deferred charges	1,399,744
Discount on refundings	105,334
Compensated absences	(682,543)
Accrued net pension obligation	(143,106)
Total adjustment	<u>\$ (22,109,785)</u>

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

2. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balance – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. There are several elements of that total adjustment of \$6,782,859 as follows:

<u>Description</u>	<u>Amount</u>
Capital outlay expenditures recorded in the fund statements but capitalized as assets in the statement of activities	\$ 1,678,189
Depreciation expense, the allocation of those assets over their useful lives, that is recorded on the statement of activities but not in the fund statements	(1,756,090)
Donation of fixed assets	2,385,736
Principal payments on debt owed are recorded as a use of funds on the fund statements but again affect only the statement of net assets in the government-wide statements. Amounts also include bond issuance costs and unamortized charge	4,316,572
Compensated absences are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(66,282)
Long-term net pension obligations are accrued in the government-wide statements but not in the fund statements because they do not use current resources	(29,931)
Decrease in interest payable on long-term debt at June 30, 2005	49,485
Internal service fund is used for self-insured health insurance costs to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets	276,878
Costs on disposal of capital assets	(40,332)
Amortization expense	(100,475)
Revenues reported in the statement of activities that do not provide current resources are not recorded as revenues in the fund statements:	
Reversal of deferred tax revenue recorded at July 1, 2004	(1,899,930)
Recording of tax receipts deferred in the fund statements as of June 30, 2005	1,950,551
Increase in accrued interest on taxes receivable for year ended June 30, 2005	18,489
Total adjustment	<u>\$ 6,782,860</u>

Notes to Financial Statements

Note 1. Nature of Operations, Reporting Entity, and Summary of Significant Accounting Policies (Continued)

Interfund transactions: Quasi-external transactions are accounted for as revenue or expenditures since they would be treated as such if they involved organizations external to the County. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Note 2. Stewardship, Compliance and Accountability

Expenditures in excess of appropriations in:

General Fund:	
Sheriff - Jail Division	\$ 25,581
Public Works	257
Special Revenue Funds:	
Rescue Squad	24,479
Fire District	86,910
Occupancy Tax	93,402
Salter Path	27,000

Note 3. Cash and Investments

Cash on hand

The County had \$1,380 in petty cash on hand at June 30, 2005.

Component unit information

Carteret County General Hospital had \$2,329 in cash on hand at September 30, 2004. The ABC Board had \$6,500.

Deposits:

All deposits of the County and its component units are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the units' agents in the units' 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 units, these deposits are considered to be held by their agents in the entities' 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 units or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the units 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 units do not have policies regarding custodial credit risk for deposits.

Carteret County, North Carolina

Notes to Financial Statements

Note 3. Cash and Investments (Continued)

At June 30, 2005, the County's deposits had a carrying amount of \$3,243,156 and a bank balance of \$4,019,613. Of the bank balance, \$500,000 was covered by federal depository insurance and \$3,519,613 was covered by collateral held under the Pooling Method. Restricted cash in the amount of \$528,780 was being held in noninterest-bearing deposits for banking services. In the Capital Projects Funds there was restricted cash of \$449,178 for County Capital Improvements.

Component unit information

At June 30, 2005, the carrying amount of deposits for Tourism and Development Authority was \$498,757 and the bank balance was \$523,073. Of the bank balance of the Authority, \$100,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method.

At June 30, 2005, the carrying amount of deposits for Beaufort-Morehead City Airport Authority was \$486,288 and the bank balance was \$491,384. Of the bank balance, \$100,000 was covered by federal depository insurance, and \$391,384 was in accounts covered by collateral held under the pooling method.

At September 30, 2004, the carrying amount of the Hospital's deposits was \$31,984,209 and the bank balance was \$34,440,707. Of the bank balance, \$400,000 was covered by federal depository insurance and the remainder is collateralized by the dedicated method or under the pooling method.

At June 30, 2005, the carrying amount of deposits for Carteret County ABC Board was \$1,134,246 and the bank balance was \$1,386,594. All of the bank balance was covered by federal depository insurance.

Investments

At June 30, 2005, the County had the following investments and maturities.

Investment Type	Fair Value	Less Than			
		6 Months	6-12 Months	1-3 Years	5-7 Years
State Agencies	\$ 232,582	\$ -	\$ -	\$ -	\$ 232,582
US Government Treasuries	495,743	495,743	-	-	-
US Government Agencies	11,478,631	5,551,135	2,969,376	2,958,120	-
Commercial Paper	991,760	991,760	-	-	-
NC Capital Management Trust Cash Portfolio	6,567,607	N/A	N/A	N/A	N/A
NC Capital Management Trust Term Portfolio	330,787	330,787	-	-	-
Total	\$ 20,097,110	\$ 7,369,425	\$ 2,969,376	\$ 2,958,120	\$ 232,582

Carteret County, North Carolina

Notes to Financial Statements

Note 3. Cash and Investments (Continued)

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the County's investment policy limits at least half of the County's investment portfolio to maturities of less than 12 months. Also, the County's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than twelve years.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the County had no formal policy on managing credit risk. As of June 30, 2005, the County's investments in commercial paper were rated P1 by Standard & Poor's, F1 by Fitch Ratings, and A1 by Moody's Investors Service. The County's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2005. The County's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligation of the State Agencies, the US government and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended. The County's investments in US Agencies are rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County had no formal policy on custodial credit risk.

Concentration of Credit Risk. The County places no limit on the amount that the County may invest in any one issuer. More than 5 percent of the County's investments are in each of the following: Federal Home Loan Bank securities \$3,979,380 (20%), Federal Home Loan Mortgage \$2,514,109 (13%) and Federal National Mortgage Association \$4,493,579 (22%).

At June 30, 2005, the County had restricted investments of \$160,442. In the Capital Projects Funds there are restricted investments of \$58 for the construction of the Newport Middle School, \$159,763 for the construction of additions to Carteret Community College, and \$621 for the construction of the Western Library and Beaufort Elementary School.

Component unit information

At June 30, 2005, the TDA had investments in the North Carolina Capital Management Trust which are exempt from risk categorization because the Authority does not own any identifiable security but is a shareholder of a percentage of the fund.

	Reported Value	Fair Value
North Carolina Capital Management Trust	\$ 774,635	\$ 774,635

Carteret County, North Carolina

Notes to Financial Statements

Note 4. Receivables

Receivables at the government-wide level are comprised of the following major categories as of June 30, 2005:

	Governmental Activities	Business-Type Activity, Water	Total
Receivables:			
Interest	\$ 676,506	\$ -	\$ 676,506
Taxes	2,479,643	-	2,479,643
Accounts	944,458	39,616	984,074
Intergovernmental	4,366,010	-	4,366,010
Other	1,317,358	-	1,317,358
Gross receivables	9,783,975	39,616	9,823,591
Less allowance for uncollectibles	(785,015)	-	(785,015)
Net total receivables	\$ 8,998,960	\$ 39,616	\$ 9,038,576

Property tax - use-value assessment on certain lands: In accordance with North Carolina general statutes, agriculture, horticulture, and forestland may be taxed as present use-value as opposed to market value. When the property loses its eligibility for use-value taxation, the property tax is recomputed at market value for the current year and the three preceding fiscal years along with accrued interest from the original due date. This tax is immediately due and payable. The following are property taxes that could become due if present use-value eligibility is lost. These amounts have not been recorded in the financial statements.

Year Levied	Tax	Interest	Total
2001	\$ 235,221	\$ 66,450	\$ 301,671
2002	218,847	61,824	280,671
2003	220,383	32,506	252,889
2004	222,056	9,993	232,049
Total	\$ 896,507	\$ 170,773	\$ 1,067,280

Component unit information

The Carteret County General Hospital Corporation receivables are net of an allowance for doubtful accounts in the amount of \$4,464,000. Approximately 60% of the Hospital's revenue is from the Medicare and Medicaid programs.

At June 30, 2005, Beaufort-Morehead City Airport Authority accounts receivable consisted of grants funds receivable of \$2,193, and amounts due from the FBO of \$950. There is no allowance for uncollectible accounts.

Carteret County, North Carolina

Notes to Financial Statements

Note 5. Capital Assets

The following is a summary of changes in the County's capital assets during the fiscal year:

	Capital Assets July 1, 2004	Additions	Retirements	Adjustments and Transfers	Capital Assets June 30, 2005
Governmental activities:					
Capital assets, not being depreciated:					
Land, airport	\$ 169,549	\$ -	\$ -	\$ -	\$ 169,549
Land, other	2,837,033	739,369	(9,072)	-	3,567,330
Construction in progress	479,239	266,565	-	(479,239)	266,565
Total capital assets not being depreciated	3,485,821	1,005,934	(9,072)	(479,239)	4,003,444
Capital assets, being depreciated:					
Buildings	25,396,732	1,832,936	-	-	27,229,668
Vehicles	3,146,753	305,444	(322,234)	-	3,129,963
Equipment	2,904,740	491,363	(111,990)	-	3,284,113
Airport facilities	1,524,747	-	-	-	1,524,747
Other improvements	3,197,473	428,248	(76,275)	479,239	4,028,685
Total capital assets being depreciated	36,170,445	3,057,991	(510,499)	479,239	39,197,176
Less accumulated depreciation for:					
Buildings	8,452,873	949,074	-	-	9,401,947
Vehicles	2,155,058	341,191	(291,641)	-	2,204,608
Equipment	2,533,668	223,781	(111,323)	-	2,646,126
Airport facilities	1,100,766	75,168	-	-	1,175,934
Other improvements	1,705,354	166,876	(76,275)	-	1,795,955
Total accumulated depreciation	15,947,719	1,756,090	(479,239)	-	17,224,570
Total capital assets, being depreciated, net	20,222,726				21,972,606
Governmental activity capital assets, net	\$ 23,708,547				\$ 25,976,050

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

Governmental activities:	
General government	\$ 451,843
Public Safety	546,707
Transportation	161,123
Human Services	326,300
Culture & Recreation	254,618
Environmental Protection	15,499
Total depreciation expense - governmental activities	\$ 1,756,090

Carteret County, North Carolina

Notes to Financial Statements

Note 5. Capital Assets (Continued)

	Capital Assets July 1, 2004	Additions	Retirements	Adjustments and Transfers	Capital Assets June 30, 2005
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 52,500	\$ -	\$ -	\$ -	\$ 52,500
Construction in progress	557,547	2,090,189	-	-	2,647,736
Total capital assets, not being depreciated	610,047	2,090,189	-	-	2,700,236
Capital assets, being depreciated:					
Buildings	2,119,264	-	-	-	2,119,264
Infrastructure	3,038,424	-	-	-	3,038,424
Vehicles	18,546	-	-	-	18,546
Equipment	25,600	-	-	-	25,600
Total capital assets being depreciated	5,201,834	-	-	-	5,201,834
Less accumulated depreciation for:					
Buildings	47,095	70,642	-	-	117,737
Infrastructure	756,271	111,698	-	-	867,969
Vehicles	3,091	3,709	-	-	6,800
Equipment	9,244	8,533	-	-	17,777
Total accumulated depreciation	815,701	194,582	-	-	1,010,283
Total capital assets being depreciated, net	4,386,133				4,191,551
Business-type activities capital assets, net	\$ 4,996,180				\$ 6,891,787

The above depreciation was charged to water activities and the Water Fund.

Construction commitments

The County has active construction projects as of June 30, 2005. The projects include the Hwy 101 Water Project Phase II, the Courthouse Renovation Project and the Sheriff Console Project. At year-end, the County's commitments with contractors are as follows:

Project	Spent-To-Date	Remaining Commitment
Hwy 101 Water Project Phase II	\$ 2,090,189	\$ 411,967
Courthouse Renovation Project	145,365	410,989
Sheriff Console	121,200	63,451
	\$ 2,356,754	\$ 886,407

Carteret County, North Carolina

Notes to Financial Statements

Note 5. Capital Assets (Continued)

Component unit information

Capital asset activity for the year ended September 30, 2004 was as follows:

	Balance September 30, 2003	Additons	Retirements	Balance September 30, 2004
Capital assets:				
Nondepreciable capital assets:				
Construction in progress	\$ 5,101,853	\$ 6,205,751	\$ 10,308,629	\$ 998,975
Land	305,111	1,726,119	-	2,031,230
	<u>5,406,964</u>	<u>7,931,870</u>	<u>10,308,629</u>	<u>3,030,205</u>
Depreciable capital assets:				
Land improvements	1,119,598	36,825	-	1,156,423
Buildings and improvements	18,469,198	7,082,940	-	25,552,138
Equipment	33,259,921	5,451,173	223,013	38,488,081
	<u>52,848,717</u>	<u>12,570,938</u>	<u>223,013</u>	<u>65,196,642</u>
Total capital assets at historical costs	<u>58,255,681</u>	<u>20,502,808</u>	<u>10,531,642</u>	<u>68,226,847</u>
Less accumulated depreciation:				
Land improvements	641,842	56,538	-	698,380
Buildings and improvements	8,645,132	684,694	-	9,329,826
Equipment	19,898,915	3,557,074	222,570	23,233,419
Total accumulated depreciation	<u>29,185,889</u>	<u>4,298,306</u>	<u>222,570</u>	<u>33,261,625</u>
Capital assets, net	<u>\$ 29,069,792</u>	<u>\$ 16,204,502</u>	<u>\$ 10,309,072</u>	<u>\$ 34,965,222</u>

Legal title to the Hospital's capital assets, except equipment purchased by the Hospital from unrestricted funds, is held by Carteret County. The facilities are leased to the Hospital for an annual rent of \$1. In the event of dissolution of the Hospital or its failure to function as a Hospital or to operate as required in the lease, all of its monies, properties and assets shall revert to Carteret County.

The following is a summary of the ABC Board's capital assets at June 30, 2005:

Land	\$ 202,424
Buildings	450,641
Furniture and equipment	555,977
Leasehold improvements	160,022
Building improvements	<u>158,316</u>
	<u>1,527,380</u>
Less accumulated depreciation	<u>961,465</u>
	<u>\$ 565,915</u>

Carteret County, North Carolina

Notes to Financial Statements

Note 5. Capital Assets (Continued)

The following is a summary of the Beaufort – Morehead City Airport Authority’s capital assets at June 30, 2005:

Construction in progress	\$ 331,595
Equipment	77,010
Hangers	140,000
Other improvements	185,419
	<u>734,024</u>
Less accumulated depreciation	108,159
	<u><u>\$ 625,865</u></u>

The following is a summary of the Carteret County Tourism and Development Authority capital assets at June 30, 2005:

Buildings	\$ 67,069
Other improvements	56,757
Equipment	56,605
Vehicles and motorized equipment	20,286
	<u>200,717</u>
Less accumulated depreciation	62,009
	<u><u>\$ 138,708</u></u>

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at the government-wide level at June 30, 2005, were as follows:

	Vendors	Salaries and Benefits	Other	Total
Governmental activities:				
General	\$ 1,267,285	\$ 756,163	\$ 37,761	\$ 2,061,209
Other governmental	978,031	3,227	216,191	1,197,449
Internal Service Fund	-	-	462,878	462,878
Total governmental activities	<u>\$ 2,245,316</u>	<u>\$ 759,390</u>	<u>\$ 716,830</u>	<u>\$ 3,721,536</u>
Business-type activities:				
Water	\$ 171,249	\$ 10,337	-	\$ 181,586
Total business-type activities	<u>\$ 171,249</u>	<u>\$ 10,337</u>	<u>\$ -</u>	<u>\$ 181,586</u>

Carteret County, North Carolina

Notes to Financial Statements

Note 7. Deferred/Unearned Revenues

The balance in deferred revenue on the fund statements and unearned revenues on the government wide statements at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Prepaid taxes not yet earned (General)	\$ -	\$ 23,205
Taxes receivable, net (General)	1,511,563	-
Taxes receivable, net (Special Revenue)	243,066	-
Solid Waste Fees (General)	195,922	-
Total	\$ 1,950,551	\$ 23,205

Note 8. Risk Management

The County 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 County carries commercial insurance for liability, casualty risks, property, casualty, and workers' compensation coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The County established a risk management program to account for and finance its uninsured risks of loss for health insurance. Under this program, the risk management program provides coverage up to a maximum of \$75,000 for each individual claim. The County purchases commercial insurance for individual claims in excess of \$75,000 and aggregate claims in excess of 125% of the projected claims per year, which is determined annually at the beginning of the plan year.

The County participates in the program and makes payment to the risk management program based on actuarial estimates of the amounts needed to pay prior- and current year claims and to establish a reserve for catastrophe losses. Amounts withheld from employees and the County's general funds are available to pay claims, claim reserves and administrative costs for the program.

The claims liability of \$462,878 reported in the Internal Service Fund at June 30, 2005 is based on the requirements of GASB Statement No. 10, which requires that a liability for claim be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in the reported liability since July 1, 2004 were as follows:

	2005	2004
Beginning of fiscal year liability	\$ 159,000	\$ -
Current year claims and changes in estimates	2,359,111	1,344,705
Claim payments	2,055,233	1,185,705
Unpaid claims at June 30	\$ 462,878	\$ 159,000

All of the component units are exposed to similar risks as described above for the County and each maintains insurance policies in effect that would minimize the chance of any claims adversely affecting the financial position of the component units.

Notes to Financial Statements

Note 8. Risk Management (Continued)

Carteret General Hospital is insured under claims-made policies for the purpose of providing professional and patient care liability insurance. These policies cover only malpractice claims reported to the insurance carrier during the policy term. Coverage includes a \$3,000,000 policy on professional liability limited to \$1,000,000 per case and an excess coverage policy for specified aggregate amounts in excess of the basic coverage.

The ABC Board has property, general liability, auto liability, worker's compensation and employee health coverage. The Board also has liquor legal liability. There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

The TDA has property, general liability, workers' compensation, and employee health coverage. 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 fiscal years.

The Airport Authority has property and general liability insurance coverage. 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.

Note 9. Long-Term Obligations

Capital lease

On September 25, 2003 the County entered into an agreement to lease a vehicle that is to be used for business type activities. The lease agreement qualifies as a capital lease for accounting purposes; therefore it has been recorded at the present value of the future minimum lease payments as of the date of inception. The lease requires 37 monthly payments of \$551 which includes interest at a rate of 4.65%.

At June 30, 2005, the County's leased vehicle is valued at a cost of \$18,546 with accumulated depreciation of \$6,800; therefore the net book value is \$11,746.

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2005 are as follows:

Year Ending June 30,	Amount
2006	\$ 6,610
2007	1,184
Total minimum lease payments	7,794
Less amount representing interest	225
Present value of the minimum lease payments	\$ 7,569

Component unit – lease commitments

Carteret County General Hospital has several capital lease obligations for certain medical equipment at September 30, 2005. The leases expire at various dates through July 2009 and have a present value of minimum lease payments of \$2,449,942. Also, the Hospital leases various facilities and equipment under operating leases expiring at various dates through October 2005. Total rental expense in 2004 for all operating leases was \$732,326.

Notes to Financial Statements

Note 9. Long-Term Obligations (Continued)

General obligation bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of capital facilities for general government activities. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the County and are serviced by the General Fund. Principal and interest requirements are provided by appropriation in the year in which they become due. The County general obligation bonds payable at June 30, 2005 are comprised of the following individual issues:

1996 school buildings, due on May 1 in varying installments through May 1, 2006; interest at 5.40% through May 1, 2006	\$ 1,000,000
2002 Carteret Community College additions due on August 1 and February 1 in varying installments through February 1, 2020; interest at varying rates ranging from 3% to 4.75%	7,200,000
2004 Refunding of 1995 and 1996 general obligation bonds due on November 1 and May 1 in varying installments through May 1, 2017; interest at varying rates ranging from 3% to 5%	19,450,000
	<u>\$ 27,650,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest
2006	\$ 2,045,000	\$ 1,121,898
2007	2,035,000	1,036,548
2008	2,320,000	956,148
2009	2,280,000	884,548
2010	2,240,000	814,148
2011-2015	10,880,000	2,516,200
2016-2020	5,850,000	549,420
	<u>\$ 27,650,000</u>	<u>\$ 7,878,910</u>

Certificates of Participation

The County issues Certificates of Participation to finance the construction of capital facilities used for general government activities. These obligations are serviced by the General Fund.

2002 certificates of participation due on December 1 and June 1 in varying installments through June 1, 2022, interest at varying rates collateralized by the Western Library and the Beaufort Elementary School	\$ 9,670,000
2000 certificates of participation due on June 1 in varying installments through June 1, 2020, interest at 5.52% collateralized by the Newport Middle School	10,875,000
	<u>\$ 20,545,000</u>

Carteret County, North Carolina

Notes to Financial Statements

Note 9. Long-Term Obligations (Continued)

Annual debt service payments to maturity as of June 30, 2005 are as follows:

Year Ending June 30,	Principal	Interest
2006	\$ 1,830,000	\$ 943,378
2007	1,800,000	879,865
2008	1,310,000	811,365
2009	1,310,000	756,834
2010	1,310,000	700,115
2011-2015	6,250,000	2,620,363
2016-2020	5,850,000	1,130,292
2021-2023	885,000	62,938
	<u>\$ 20,545,000</u>	<u>\$ 7,905,150</u>

The County has entered into various installment-financing agreements for equipment and capital improvements.

Governmental activities (serviced by the General Fund):

Renovations of building purchased for health center for 10 consecutive annual installments, beginning in fiscal year 2002-2004, including interest at 4.510% \$ 2,100,000

Business-type activities (serviced by the Water Fund):

Construction of water treatment and distribution facilities for 19 consecutive annual installments, beginning in fiscal year 2004-2005, including interest at 2.6% 558,576

Construction of Phase II Waterline extensions for 20 consecutive annual installments, beginning in fiscal year 2005-2006, including interest at 2.205% 2,421,727

\$ 5,080,303

Annual debt service requirements to maturity for installment financing at June 30, 2005 are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 300,000	\$ 87,990	\$ 132,588	\$ 83,453	\$ 432,588	\$ 171,443
2007	300,000	75,420	130,459	83,798	430,459	159,218
2008	300,000	62,850	132,673	79,799	432,673	142,649
2009	300,000	50,280	134,937	75,750	434,937	126,030
2010	300,000	37,710	137,252	71,652	437,252	109,362
2011-2015	600,000	37,710	722,819	294,933	1,322,819	332,643
2016-2020	-	-	788,921	184,225	788,921	184,225
2021-2023	-	-	800,654	65,820	800,654	65,820
	<u>\$ 2,100,000</u>	<u>\$ 351,960</u>	<u>\$ 2,980,303</u>	<u>\$ 939,430</u>	<u>\$ 5,080,303</u>	<u>\$ 1,291,390</u>

Carteret County, North Carolina

Notes to Financial Statements

Note 9. Long-Term Obligations (Continued)

The following is a summary of changes in the County's long-term obligations for the fiscal year ended June 30, 2005:

	Beginning Balance June 30, 2004	Additions	Retirements	Ending Balance June 30, 2005	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 29,695,000	\$ -	\$ 2,045,000	\$ 27,650,000	\$ 2,045,000
Certificates of participation	22,400,000	-	1,855,000	20,545,000	1,830,000
Less deferred amounts:					
Advance refunding charge	(1,532,118)	-	(132,374)	(1,399,744)	-
Issuance discounts	(140,792)	-	(35,458)	(105,334)	-
Premium on refunding	1,224,500	-	96,608	1,127,892	-
Total bonds payable	51,646,590	-	3,828,776	47,817,814	3,875,000
Installment purchase obligation	2,516,572	-	416,572	2,100,000	300,000
Compensated absences	616,261	756,709	690,427	682,543	341,272
Separation allowance pension obligations	113,175	29,931	-	143,106	-
Governmental activity long-term liabilities	\$ 54,892,598	\$ 786,640	\$ 4,935,775	\$ 50,743,463	\$ 4,516,272
Business-type activities:					
Installment purchase obligations	\$ 589,608	\$ 2,421,727	\$ 31,032	\$ 2,980,303	\$ 31,032
Compensated absences	4,320	8,014	8,713	3,621	3,621
Capital lease	13,672	-	6,103	7,569	6,393
Business-type activity long-term liabilities	\$ 607,600	\$ 2,429,741	\$ 45,848	\$ 2,991,493	\$ 41,046

State statute provides for a legal debt limit of 8 percent of the County's appraised valuation. The County's legal debt margin as of June 30, 2005 amounts to \$578,982,105.

Conduit debt obligations

Carteret County Industrial Facility and Pollution Control Authority has issued industrial revenue bonds to provide financial assistance to private businesses for economic development purposes. These bonds are secured by the properties financed as well as letters of credit and are payable solely from payments received from the private businesses involved. Ownership of the acquired facilities is in the name of the private business served by the bond issuance. Neither the County, the Authority, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2005, the outstanding principal amount payable was \$9,000,000.

Carteret County, North Carolina

Notes to Financial Statements

Note 9. Long-Term Obligations (Continued)

Prior-year defeasance of debt

In prior years, the County defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. On June 30, 2005, \$14.40 million of bonds outstanding are considered defeased.

Component unit information

The Hospital has a note payable with a bank, payable in consecutive equal annual payments of \$600,000 plus accrued interest at 4.19% due September 2011. The note is collateralized by a deed of trust on certain buildings. At September 30, 2004, the outstanding balance on the note was \$4,200,000.

Scheduled principal repayments are as follows:

Year Ending September 30,	Amount
2005	\$ 600,000
2006	600,000
2007	600,000
2008	600,000
2009	600,000
2010 - 2011	1,200,000
	<u>\$ 4,200,000</u>

The Tourism and Development Authority had accrued compensated absences as a long-term debt at June 30, 2005 in the amount of \$14,689.

The ABC Board entered into a \$25,000 installment loan payable agreement with a bank during the year ended June 30, 2004. Monthly installments of \$417 including interest at 0.0% per annum are due through July 2008. The asset of the ABC Board used to collateralize the installment loan payable is a vehicle.

Aggregate maturities of long-term debt are as follows:

Year Ending June 30,	Amount
2006	\$ 5,000
2007	5,000
2008	5,000
	<u>\$ 15,000</u>

Notes to Financial Statements

Note 9. Long-Term Obligations (Continued)

The Beaufort-Morehead City Airport Authority entered into an installment purchase contract with Carteret County to finance the purchase of hangars. The contract requires monthly payments of \$1,220 each including interest at 5% per annum. During the year ended June 30, 2005, the Authority borrowed an additional \$157,540 to pay for a runway resealing project. This additional loan amount and the existing loan were consolidated into one new loan. The new loan requires monthly payments of \$2,078 each including interest at 3.98% per annum, beginning in November 2004 and is collateralized by an assignment of rents by the Authority to the County.

The future minimum debt service payments for the installment purchase contract as of June 30, 2005, including \$38,610 of interest, are as follows:

Year Ending June 30,	Amount
2006	\$ 24,940
2007	24,940
2008	24,940
2009	24,940
2010	24,940
2011 - 2015	108,073
	<u>\$ 232,773</u>

Note 10. Retirement Systems

North Carolina Local Governmental Employees' Retirement System

Plan description: Carteret County and the ABC Board contribute 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 27699-1410, or by calling (919) 981-5454.

Funding policy: Plan members are required to contribute six percent of their annual covered salary. The County and the ABC Board are required to contribute at an actuarially determined rate. For the County and the ABC Board, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.91% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of Carteret County and the ABC Board are established and may be amended by the North Carolina General Assembly. The County's contribution to LGERS for the years ended June 30, 2005, 2004, and 2003 were \$515,848, \$480,040 and \$464,908, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2005, 2004, and 2003 were \$24,037, \$26,382 and \$26,386, respectively. The contribution made by the County and the ABC Board equaled the required contributions for each year.

Notes to Financial Statements

Note 10. Retirement Systems (Continued)

Law Enforcement Officers Special Separation Allowance

1. Plan Description

Carteret County administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the County'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.

All full-time County law enforcement officers are covered by the System. At December 31, 2004 the System's membership consisted of:

Retirees receiving benefits	-
Terminated plan member entitled to but not yet receiving benefits	-
Active plan members	<u>39</u>
Total	<u><u>39</u></u>

The Plan does not issue a stand-alone financial report.

2. Summary of Significant Accounting Policies

Basis of accounting: The County 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 County 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 County'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.

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include postretirement benefit increases.

Carteret County, North Carolina

Notes to Financial Statements

Note 10. Retirement Systems (Continued)

Annual pension cost and net pension obligation: The County's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 28,075
Interest on net pension obligation	8,205
Adjustment to annual required contribution	<u>(6,349)</u>
Annual pension cost	29,931
Employer contributions made for fiscal year ended June 30, 2005	<u>-</u>
Increase in net pension obligation	29,931
Net pension obligation, beginning of fiscal year	<u>113,175</u>
Net pension obligation, end of fiscal year	<u><u>\$ 143,106</u></u>

Trend Information

The ARC (annual required contribution) and the percent of ARC contributed for the last 2 years is not significantly different than the trend information presented.

Actuarial Valuation Date	Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
12/31/2002	6/30/2003	\$ 26,030	-	\$ 87,633
12/31/2003	6/30/2004	25,542	-	113,175
12/31/2004	6/30/2005	29,931	-	143,106

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL)- Proj Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll for Year Ending on Valuation Date (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/1999	\$ -	\$ 80,668	\$ 80,668	0.00%	\$ 914,148	8.82%
12/31/2000	-	149,530	149,530	0.00%	1,033,427	14.47%
12/31/2001	-	165,054	165,054	0.00%	988,446	16.70%
12/31/2002	-	153,701	153,701	0.00%	1,065,893	14.42%
12/31/2003	-	179,265	179,265	0.00%	1,203,410	14.90%
12/31/2004	-	205,031	205,031	0.00%	1,214,506	16.88%

Notes to Financial Statements

Note 10. Retirement Systems (Continued)

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan description: The County and ABC Board contribute 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 City. 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 County and ABC Board 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 from the County for the year ended June 30, 2005 were \$75,108, which consisted of \$62,253 from the County and \$12,855 from law enforcement officers. Contributions from the ABC Board for June 30, 2005 consisted of \$1,451 from the Board and zero from the law enforcement officers.

Supplemental Retirement Income Plan for General Employees

Plan description: Carteret County 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 general employees of the County. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding policy: The County has voluntarily elected to contribute each month an amount equal to five percent of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2005 were \$715,931, which consisted of \$464,699 from the County and \$251,232 from the employees.

Registers of Deeds' Supplemental Pension Fund

Plan description: Carteret County also contributes to the Registers of Deeds' Supplemental Pension Fund ("Fund"), a noncontributory, defined contribution plan administered by the North Carolina Department of State Treasurer. The Fund provides supplemental pension benefits to any county register of deeds who is retired under the LGERS or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding policy: On a monthly basis, the County remits to the Department of State Treasurer an amount equal to 4.5% of the monthly receipts collected pursuant to Article 1 of G.S. Chapter 161. Immediately following January 1 of each year, the Department of State Treasurer divides 93% of the amount in the Fund at the end of the preceding calendar year into equal shares to be disbursed as monthly benefits. The remaining 7% of the Fund's assets may be used by the State Treasurer in administering the Fund. For the fiscal year ended June 30, 2005, the County's required and actual contributions were \$37,256.

Notes to Financial Statements

Note 10. Retirement Systems (Continued)

Carteret General Hospital Corporation Pension Plan

The Hospital provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan requires that the Hospital contribute an amount equal to 7% of the employee's base salary at the end of each plan year. The Hospital's contributions for each employee (and plan earnings allocated to the employee's account) are fully vested after five years' continuous service. Hospital contributions for, and plan earnings forfeited by, employees who leave employment before five years of service are used to reduce the Hospital's current-period contribution requirement.

Contributions for years ended September 30, 2004 and 2003 totaled \$1,667,783 and \$1,446,156, respectively.

Carteret County Tourism Development Authority Retirement Plan

The Authority has set up a simplified employee pension - Individual Retirement Account for each of its full-time employees who have worked eight months of the immediately preceding five years. The contribution is four percent of salary for qualifying employees. The Authority's contribution amount for the fiscal year ended June 30, 2005 was \$5,565.

Note 11. Other Post-Employment Benefits

Employees have the option to continue group coverage at their expense for a maximum of 18 months after employment if terminated or hours worked are reduced causing an employee to be ineligible for coverage. Covered dependents have the option to continue group coverage for a maximum of 36 months if their coverage is terminated due to employee's death, divorce or legal separation, employee's entitlement to Medicare or a dependent child ceases to be a dependent under the terms of the group's coverage.

The County provides postretirement health care benefits to all employees who retire from the County with at least 20 years of service, until they reach Medicare eligibility. Currently 26 retirees meet those eligibility requirements and the premiums paid on their behalf were \$123,090 for the current fiscal year.

The County 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 multiemployer, State administered, cost-sharing plan funded on a one-year term cost basis. Lump-sum death benefits are provided to beneficiaries of those employees: 1) who die in active service after one year of contributing membership in the System, or 2) 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 employees' death, but the benefit may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The County has no liability beyond the payment of monthly contributions.

Notes to Financial Statements

Note 11. Other Post-Employment Benefits (Continued)

Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the County, the County does not determine the number of eligible participants. For the year ended June 30, 2005, the County made contributions to the State for death benefits of \$11,966. The County's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .11% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount.

Note 12. Additional Social Welfare Expenditures

The benefit payments listed below were issued directly from the state to recipients of the County on its behalf. These amounts represent additional Federal and State financial assistance to the residents of the County but are not reflected in the financial statements because the County has no primary responsibilities beyond making eligibility determinations.

	Federal	State
Food Stamps	\$ 3,391,759	\$ -
Medicaid	32,388,281	15,022,969
TANF and Work First	1,259,156	(225)
WIC	822,635	-
Special Assistance	-	332,383
	<u>\$ 37,861,831</u>	<u>\$ 15,355,127</u>

Note 13. Joint Ventures

The County, in conjunction with Craven County and Pamlico County, participates in the Coastal Regional Solid Waste Management Authority. Carteret County appoints two members of the seven-member board. The Authority is a joint venture established to provide solid waste management within these counties. The County has an ongoing financial responsibility for the Authority because it and the other counties are legally obligated under the intergovernmental agreement that created the Authority to honor any deficiencies in the event that proceeds from other sources are insufficient. The County did not contribute any funds to the Authority during the fiscal year ended June 30, 2005. The participating governments do not have any equity interest in the joint venture, so no equity interest has been reflected in the financial statements at June 30, 2005. Complete financial statements for the Authority can be obtained from the Authority's administrative offices at 7400 Old Highway 70 West, Cove City, North Carolina 28523.

The County, in conjunction with Jones, Pamlico and Craven Counties, participates in a joint venture to operate Neuse Center for Mental Health, Developmental Disabilities, and Substance Abuse Services. One commissioner from each County serves on the board of twenty members. The County has an ongoing financial responsibility for the joint venture because the Center's continued existence depends on the participating governments' funding in conjunction with funding from the State of North Carolina. None of the participating governments have any equity interest in the Center, so no equity interest has been reflected in the financial statements at June 30, 2005. The County appropriated \$63,817 to the Center during the fiscal year ended June 30, 2005 which included money received from the ABC Board designated for alcohol education. Complete financial statements for the Center can be obtained from the Center's administrative offices at 405 Middle Street, New Bern, NC 28560.

Notes to Financial Statements

Note 13. Joint Ventures (Continued)

The County, in conjunction with the State of North Carolina and the Carteret County Board of Education, participates in a joint venture to operate Carteret Community College. The County appoints four members of the twelve-member board of trustees of the community college. The college is included as a component unit of the State of North Carolina. The County has the basic responsibility for providing funding for the facilities of the community college and also provides some financial support for the Community College's operations. The County has an ongoing financial responsibility for the Community College because of the statutory responsibilities to provide funding for the Community College's facilities. The County contributed \$1,742,030 to the Community College during the fiscal year ended June 30, 2005. The participating governments do not have any equity interest in the joint venture; therefore, no equity interest has been reflected in the financial statements at June 30, 2005. Complete financial statements for the Community College may be obtained from the Community College's administrative offices at 3505 Arendell Street, Morehead City, North Carolina 28557.

Component unit information

The Hospital is a member of a limited liability company with two other area healthcare providers. According to the operating agreement of the joint venture, the Hospital acquired a one-third interest by contributing capital of \$1,000. In addition to the \$1,000, the Hospital has contributed \$175,000 to fund start-up costs. The limited liability company was organized to help represent the area healthcare providers on a larger scale. The investment in the joint venture of \$195,519 and \$191,903 for the years ended September 30, 2004 and 2003, respectively, is accounted for under the equity method and is included in other assets in the statements of net assets. During 2004, the Hospital's share of the profit (unaudited) is \$3,616 and is included in nonoperating income.

Note 14. Jointly Governed Organizations

Regional Library

The County, in conjunction with two other counties, governs the operations of the Craven-Pamlico-Carteret Regional Library. Each participating government appoints three board members to the nine-member board. The County has no ongoing financial responsibility for the joint venture because the library's continued existence depends on the State of North Carolina's continued funding. None of the participating governments have any equity interest in the library, so no equity interest has been reflected in the financial statements at June 30, 2005. During the year ended June 30, 2005, the County appropriated \$685,800 to the library in Carteret County.

Global Trans-Park Development Commission

The Global Trans-Park Development Commission is a corporate body created on November 29, 1993. Its purpose is to allow the 13 participating counties, including Carteret County, which have the potential to derive direct economic benefits from the North Carolina Global Trans-Park, to create a special economic development district, known as the Global Trans-Park Development Zone. The Commission's primary responsibility is to promote and encourage economic development within the territorial jurisdiction of the Zone by fostering development projects to provide land, buildings, facilities, programs, information and data systems, and infrastructure requirements for business and industry in the Global Trans-Park Development Zone.

The Commission is governed by 42 voting members, consisting of three members from Carteret County and each of the 12 other participating counties, and three members appointed by the Global Trans-Park Authority. The voting members from each of the counties are appointed by the Board of County Commissioners of the respective counties.

Notes to Financial Statements

Note 14. Jointly Governed Organizations (Continued)

The Commission is responsible for a nonexpendable trust fund consisting of an initial State appropriation of \$7.5 million and 85% of the quarterly distributions of the \$5 motor vehicle license fees collected by the North Carolina Department of Transportation. The motor vehicle tax was adopted by the legislature and the participating counties and will be collected for a period of five years. The principal balance of the trust funds are nonexpendable and will revolve as loans are made and repaid to the Commission. At June 30, 2005, the portion of the trust available to be loaned exclusively to Carteret County was \$1,705,420.

Note 15. Commitments and Contingencies

Litigation

The County is named defendant in several lawsuits, related to carrying out its functions. Based upon its consultations with the County's attorneys, the County believes its ultimate liability, if any, will not be significant.

Federal and State Assisted Programs

The County 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 terms of the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. County administrators believe that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Component unit information

The Hospital is insured under claims-made for the purpose of providing professional and patient care liability insurance. These policies cover only malpractice claims reported to the insurance carrier during the policy term. Coverage includes a \$3,000,000 policy on professional liability limited to \$1,000,000 per case and an excess coverage policy for specified aggregate amounts in excess of the basic coverage. Incidents occurring through September 30, 2004 may result in the assertion of a claim. In the opinion of management, these actions would be successfully defended or resolved without material adverse effect on the financial position of the Hospital.

The Hospital is involved in the construction of the Imaging Center at September 30, 2004. The construction is expected to be completed by January 2005. The total estimated cost of the project is \$4,400,000. At September 30, 2004, cost incurred totaled approximately \$1,679,000.

Carteret County, North Carolina

Notes to Financial Statements

Note 16. Interfund and Intra-Entity Receivables and Payables

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Occupancy Tax Fund: Occupancy Tax Revenue that was collected in July for the period ending June 30, 2005	\$ 358,228
Salter Path District	Occupancy Tax Fund: Occupancy Tax Revenue that was collected in July for the period ending June 30, 2005	2,939
Internal Service Fund	General Fund: Health Insurance Proceeds from Accrued Payroll for the period ending June 30, 2005	43,695
		<u>\$ 404,862</u>

Due to/from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government: General Fund	Component unit: Beaufort-Morehead City Airport Authority Loan amount due to Carteret County from component unit Carteret County ABC Board Net income distribution due to County at June 30, 2005	\$ 194,163
		143,261
		<u>\$ 337,424</u>

Carteret County, North Carolina

Notes to Financial Statements

Note 17. Interfund Transfers and Intra-Entity Transactions With Component Units

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as transfers, and are reported as other financing sources (uses) in the Governmental funds and nonoperating revenues (expenses) in the Enterprise Fund.

Interfund transfers for the year ended June 30, 2005 are as follows:

Transfers Out	Transfers In			Total
	Major General	Other Governmental Funds	Major Water Fund	
Major General Fund	\$ -	\$ 1,135,945	\$ 70,621	\$ 1,206,566
Other Governmental Funds	1,062,771	341,227	-	1,403,998
Total transfers out	\$ 1,062,771	\$ 1,477,172	\$ 70,621	\$ 2,610,564

Transfers consist primarily of the following:

\$ 1,206,566	Transfer from General Fund for various current and future capital projects and to supplement other funding sources in the special revenue, capital projects and enterprise funds
50,670	Transfer from Occupancy Tax Fund in accordance with North Carolina General Statutes
1,012,101	Transfer from Occupancy Tax Fund for reimbursement in accordance with North Carolina General Statutes
27,000	Transfers in accordance with occupancy tax North Carolina General Statutes
314,227	Transfer available for school special projects

Intra-entity transactions with discretely presented component units for the year ended June 30, 2005 are as follows:

Expenditures from General Fund to Beaufort-Morehead City Airport Authority for operations	\$ 113,889
Expenditures from Occupancy Room Tax Fund to Carteret County Tourism Development Authority for portion of Room Occupancy Tax	2,012,102
	<u>\$ 2,125,991</u>
Profit Contributions from ABC Board to General Fund	<u>\$ 356,616</u>

Notes to Financial Statements

Note 18. Pronouncements Issued, Not Yet Effective

The Governmental Accounting Standards Board ("GASB") has issued several pronouncements prior to June 30, 2005 (effective for years ending on or after June 30, 2005) that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the County.

- GASB Statement Number 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*.
- GASB Statement Number 44, *Economic Condition Reporting: The Statistical Section*.
- GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.
- GASB Statement Number 46, *Net Assets Restricted by Legislation*.
- GASB Statement Number 47, *Accounting for Termination Benefits*.

Note 19. Subsequent Event

On November 8, 2005, the voters approved a \$50.01 million school bond. These bonds will fund building expansions and extensive renovations to our public schools. The County anticipates issuing the first series of bonds in 2006.

General Fund

Major Funds Summary

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Revenue			
Ad valorem taxes:			
Current period	\$ 31,834,067	\$ 32,055,875	\$ 221,808
Prior years	955,000	943,884	(11,116)
Interest and penalties	260,000	279,932	19,932
	<u>33,049,067</u>	<u>33,279,691</u>	<u>230,624</u>
Other taxes and licenses:			
White goods disposal tax	15,000	29,234	14,234
ABC local bottle tax	19,000	28,196	9,196
Local option sales tax	11,399,000	12,860,258	1,461,258
Scrap tire disposal tax	56,500	122,064	65,564
	<u>11,489,500</u>	<u>13,039,752</u>	<u>1,550,252</u>
Permits and fees:			
Sheriff fees	35,000	40,826	5,826
Register of deeds	1,483,531	1,983,948	500,417
Privilege licenses	13,000	15,316	2,316
Franchise fees	200,000	237,326	37,326
Other fees	565,900	816,529	250,629
	<u>2,297,431</u>	<u>3,093,945</u>	<u>796,514</u>
Intergovernmental:			
Restricted:			
Federal and State grants	8,687,745	8,601,526	(86,219)
Court facilities fees	220,000	253,294	33,294
Unrestricted:			
Beer and wine tax	146,350	155,208	8,858
Sales and gas tax refunds	-	30,168	30,168
ABC profits	200,000	356,616	156,616
Croatan National Forest	60,000	120,259	60,259
	<u>9,314,095</u>	<u>9,517,071</u>	<u>202,976</u>
Sales and services:			
Mapping	1,800	4,401	2,601
Solid waste	1,250,000	1,305,582	55,582
Civic center fees	85,000	107,849	22,849
Other	386,760	324,697	(62,063)
	<u>1,723,560</u>	<u>1,742,529</u>	<u>18,969</u>
Interest	<u>260,000</u>	<u>506,681</u>	<u>246,681</u>
Miscellaneous:			
Proceeds from sale of fixed assets	22,000	14,746	(7,254)
Other	215,973	310,666	94,693
	<u>237,973</u>	<u>325,412</u>	<u>87,439</u>
Total revenue	<u>58,371,626</u>	<u>61,505,081</u>	<u>3,133,455</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
 Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Expenditures			
General government:			
Governing body:			
Salaries and employee benefits	\$ 66,797	\$ 53,437	\$ 13,360
Operating expenses	214,744	200,938	13,806
Professional services	125,500	141,988	(16,488)
	<u>407,041</u>	<u>396,363</u>	<u>10,678</u>
Administration:			
Salaries and employee benefits	203,634	197,626	6,008
Operating expenses	41,000	40,275	725
	<u>244,634</u>	<u>237,901</u>	<u>6,733</u>
Information systems:			
Salaries and employee benefits	158,125	154,296	3,829
Operating expenses	238,150	228,462	9,688
Capital outlay	12,540	-	12,540
	<u>408,815</u>	<u>382,758</u>	<u>26,057</u>
Finance:			
Salaries and employee benefits	358,458	356,864	1,594
Operating expenses	54,400	39,385	15,015
	<u>412,858</u>	<u>396,249</u>	<u>16,609</u>
Human resources:			
Salaries and employee benefits	66,204	72,738	(6,534)
Operating expenses	60,900	51,187	9,713
	<u>127,104</u>	<u>123,925</u>	<u>3,179</u>
Tax:			
Salaries and employee benefits	671,406	667,146	4,260
Operating expenses	97,935	75,139	22,796
Contract services	113,000	78,749	34,251
Capital outlay	8,400	8,383	17
	<u>890,741</u>	<u>829,417</u>	<u>61,324</u>
Revaluation:			
Salaries and employee benefits	118,439	103,351	15,088
Operating expenses	30,000	10,851	19,149
Contract services	-	26	(26)
	<u>148,439</u>	<u>114,228</u>	<u>34,211</u>
Legal:			
Professional services	88,100	35,321	52,779
Court facilities:			
Operating expenses	47,373	46,668	705
Contract services	4,230	4,203	27
	<u>51,603</u>	<u>50,871</u>	<u>732</u>
Elections:			
Salaries and employee benefits	135,539	140,375	(4,836)
Operating expenses	178,396	161,782	16,614
	<u>313,935</u>	<u>302,157</u>	<u>11,778</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Register of deeds:			
Salaries and employee benefits	\$ 310,759	\$ 310,541	\$ 218
Operating expenses	136,909	156,578	(19,669)
Capital outlay	153,331	94,607	58,724
	<u>600,999</u>	<u>561,726</u>	<u>39,273</u>
Public buildings:			
Salaries and employee benefits	355,517	357,115	(1,598)
Operating expenses	419,723	402,323	17,400
	<u>775,240</u>	<u>759,438</u>	<u>15,802</u>
Total general government	<u>4,469,509</u>	<u>4,190,354</u>	<u>279,155</u>
Public safety:			
Sheriff:			
Salaries and employee benefits	1,896,449	1,883,751	12,698
Operating expenses	545,332	553,210	(7,878)
Contract services	245	245	-
Capital outlay	191,230	167,102	24,128
	<u>2,633,256</u>	<u>2,604,308</u>	<u>28,948</u>
Communications:			
Salaries and employee benefits	350,321	348,410	1,911
Operating expenses	56,865	51,872	4,993
	<u>407,186</u>	<u>400,282</u>	<u>6,904</u>
Sheriff - Jail division:			
Salaries and employee benefits	1,046,762	1,070,891	(24,129)
Operating expenses	651,422	628,180	23,242
Contract services	204,000	216,154	(12,154)
Capital outlay	40,000	52,540	(12,540)
	<u>1,942,184</u>	<u>1,967,765</u>	<u>(25,581)</u>
Emergency medical service:			
Salaries and employee benefits	18,052	21,633	(3,581)
Operating expenses	12,750	8,325	4,425
Contract services	14,000	14,004	(4)
	<u>44,802</u>	<u>43,962</u>	<u>840</u>
Paramedic operations:			
Salaries and employee benefits	522,112	530,562	(8,450)
Operating expenses	141,387	131,967	9,420
Capital outlay	33,600	33,600	-
	<u>697,099</u>	<u>696,129</u>	<u>970</u>
Emergency management:			
Salaries and employee benefits	51,912	66,207	(14,295)
Operating expenses	290,099	100,926	189,173
Contract services	11,300	5,502	5,798
	<u>353,311</u>	<u>172,635</u>	<u>180,676</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
 Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Rape crisis program:			
Salaries and employee benefits	\$ 110,181	\$ 110,716	\$ (535)
Operating expenses	20,772	20,106	666
Contract services	19,006	19,004	2
	<u>149,959</u>	<u>149,826</u>	<u>133</u>
Domestic violence program:			
Operating expenses	<u>92,912</u>	<u>90,379</u>	<u>2,533</u>
Fire Marshall:			
Salaries and employee benefits	65,169	64,744	425
Operating expenses	15,098	12,219	2,879
	<u>80,267</u>	<u>76,963</u>	<u>3,304</u>
Medical examiner:			
Professional services	<u>50,500</u>	<u>49,975</u>	<u>525</u>
Animal control:			
Salaries and employee benefits	227,611	224,911	2,700
Operating expenses	287,090	289,776	(2,686)
Capital outlay	17,148	17,155	(7)
	<u>531,849</u>	<u>531,842</u>	<u>7</u>
Total public safety	<u>6,983,325</u>	<u>6,784,066</u>	<u>199,259</u>
Transportation:			
Harbors:			
Operating expenses	<u>34,700</u>	<u>18,083</u>	<u>16,617</u>
Beaufort-Morehead City Airport Authority	<u>113,889</u>	<u>113,889</u>	<u>-</u>
CCATS:			
Salaries and employee benefits	72,358	70,562	1,796
Operating expenses	302,300	290,253	12,047
Contract services	5,000	806	4,194
Capital outlay	38,500	-	38,500
	<u>418,158</u>	<u>361,621</u>	<u>56,537</u>
Total transportation	<u>566,747</u>	<u>493,593</u>	<u>73,154</u>
Environmental protection:			
Forest fire control	<u>90,000</u>	<u>83,001</u>	<u>6,999</u>
Landfill closure	<u>20,000</u>	<u>19,247</u>	<u>753</u>
Tri-County solid waste collections	<u>2,124,500</u>	<u>2,090,120</u>	<u>34,380</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Soil conservation:			
Salaries and employee benefits	\$ 66,158	\$ 67,840	\$ (1,682)
Operating expenses	11,947	9,334	2,613
	<u>78,105</u>	<u>77,174</u>	<u>931</u>
Public works:			
Salaries and employee benefits	226,967	231,810	(4,843)
Operating expenses	100,341	99,004	1,337
Contract services	101,800	101,800	-
Capital outlay	46,000	42,751	3,249
	<u>475,108</u>	<u>475,365</u>	<u>(257)</u>
Total environmental protection	2,787,713	2,744,907	42,806
Economic and physical development:			
Special appropriations:			
Economic Development Council	106,750	106,750	-
Port committee	1,000	-	1,000
Business development	25,000	-	25,000
	<u>132,750</u>	<u>106,750</u>	<u>26,000</u>
Beach nourishment			
Salaries and employee benefits	66,803	69,539	(2,736)
Operating expenses	285,150	132,957	152,193
Contract services	370,000	314,977	55,023
	<u>721,953</u>	<u>517,473</u>	<u>204,480</u>
Planning and zoning:			
Salaries and employee benefits	488,849	496,238	(7,389)
Operating expenses	81,052	66,983	14,069
Contract services	4,000	7,091	(3,091)
Capital outlay	11,475	11,491	(16)
	<u>585,376</u>	<u>581,803</u>	<u>3,573</u>
Engineering:			
Salaries and employee benefits	69,591	64,803	4,788
Operating expenses	19,957	12,076	7,881
	<u>89,548</u>	<u>76,879</u>	<u>12,669</u>
Agricultural extension:			
Salaries and employee benefits	9,836	11,573	(1,737)
Operating expenses	225,675	222,922	2,753
	<u>235,511</u>	<u>234,495</u>	<u>1,016</u>
Total economic and physical development	1,765,138	1,517,400	247,738
Human Services:			
Health center:			
Salaries and employee benefits	652,111	662,338	(10,227)
Operating expenses	199,631	180,886	18,745
	<u>851,742</u>	<u>843,224</u>	<u>8,518</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
 Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Health promotion:			
Salaries and employee benefits	\$ 83,797	\$ 61,229	\$ 22,568
Operating expenses	10,494	9,336	1,158
	<u>94,291</u>	<u>70,565</u>	<u>23,726</u>
Clinical services, cancer, glaucoma, diabetes:			
Salaries and employee benefits	248,118	214,610	33,508
Operating expenses	46,492	36,720	9,772
	<u>294,610</u>	<u>251,330</u>	<u>43,280</u>
Tuberculosis control program:			
Salaries and employee benefits	90,419	69,642	20,777
Operating expenses	6,200	5,734	466
	<u>96,619</u>	<u>75,376</u>	<u>21,243</u>
Adult kidney health			
Salaries and employee benefits	1,200	1,023	177
Aids control:			
Salaries and employee benefits	81,962	76,278	5,684
Operating expenses	49,419	45,780	3,639
	<u>131,381</u>	<u>122,058</u>	<u>9,323</u>
Maternal adult and child health:			
Salaries and employee benefits	270,434	274,103	(3,669)
Operating expenses	18,200	5,203	12,997
	<u>288,634</u>	<u>279,306</u>	<u>9,328</u>
Child care coordination:			
Salaries and employee benefits	156,588	150,155	6,433
Operating expenses	4,640	1,128	3,512
	<u>161,228</u>	<u>151,283</u>	<u>9,945</u>
Women, infants, and children:			
Administration:			
Salaries and employee benefits	170,922	171,438	(516)
Operating expenses	10,761	9,042	1,719
	<u>181,683</u>	<u>180,480</u>	<u>1,203</u>
Nutrition:			
Salaries and employee benefits	42,411	39,972	2,439
Operating expenses	500	187	313
	<u>42,911</u>	<u>40,159</u>	<u>2,752</u>
Environmental health:			
Salaries and employee benefits	759,298	758,334	964
Operating expenses	135,502	94,965	40,537
Capital outlay	15,000	12,300	2,700
	<u>909,800</u>	<u>865,599</u>	<u>44,201</u>
State smart start grant:			
Salaries and fringe benefits	28,055	23,348	4,707
Operating supplies	11,535	8,628	2,907
Contract services	-	361	(361)
	<u>39,590</u>	<u>32,337</u>	<u>7,253</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Mental health:			
Mental health center and other	\$ 234,267	\$ 85,567	\$ 148,700
Mental health, ABC	16,000	14,250	1,750
	<u>250,267</u>	<u>99,817</u>	<u>150,450</u>
DSS administration:			
Salaries and employee benefits	3,923,739	3,824,401	99,338
Operating expenses	430,984	406,370	24,614
Professional services	60,000	71,658	(11,658)
	<u>4,414,723</u>	<u>4,302,429</u>	<u>112,294</u>
General assistance:			
Boarding home	145,000	153,976	(8,976)
Clothing and medical expense	24,000	21,109	2,891
Special children adoption	25,600	12,910	12,690
Miscellaneous	15,400	17,631	(2,231)
	<u>210,000</u>	<u>205,626</u>	<u>4,374</u>
TANF Block grant:			
TANF Block grant	252,675	191,561	61,114
Operating expenses	37,000	40,173	(3,173)
	<u>289,675</u>	<u>231,734</u>	<u>57,941</u>
DSS special assistance	<u>5,302,052</u>	<u>5,197,873</u>	<u>104,179</u>
Special projects	<u>251,246</u>	<u>248,701</u>	<u>2,545</u>
Other human services	<u>389,283</u>	<u>292,113</u>	<u>97,170</u>
CBA juvenile restitution program:			
Salaries and employee benefits	34,572	34,472	100
Operating expenses	4,630	4,745	(115)
Contract services	10,978	9,863	1,115
	<u>50,180</u>	<u>49,080</u>	<u>1,100</u>
Veteran services:			
Salaries and employee benefits	151,605	152,481	(876)
Operating expenses	21,750	19,726	2,024
Contract services	3,154	4,130	(976)
	<u>176,509</u>	<u>176,337</u>	<u>172</u>
Senior center operation:			
Salaries and employee benefits	126,536	125,599	937
Operating expenses	97,780	75,140	22,640
Contract services	87,979	87,961	18
	<u>312,295</u>	<u>288,700</u>	<u>23,595</u>

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
 Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Title V grant:			
Salaries and employee benefits	\$ 49,793	\$ 48,583	\$ 1,210
Operating expenses	5,885	1,869	4,016
Contract services	-	104	(104)
	<u>55,678</u>	<u>50,556</u>	<u>5,122</u>
Title III F grant:			
Salaries and employee benefits	4,358	4,215	143
Operating expenses	4,780	4,671	109
	<u>9,138</u>	<u>8,886</u>	<u>252</u>
Senior center outreach			
Salaries and employee benefits	14,544	14,382	162
Operating expenses	11,355	6,469	4,886
Contract services	7,920	8,725	(805)
	<u>33,819</u>	<u>29,576</u>	<u>4,243</u>
Total human services	14,838,554	14,094,168	744,386
Culture and recreation:			
Parks and recreation:			
Salaries and employee benefits	314,453	313,589	864
Operating expenses	197,684	175,526	22,158
Contract services	24,750	22,838	1,912
	<u>536,887</u>	<u>511,953</u>	<u>24,934</u>
Parks and recreation maintenance:			
Salaries and employee benefits	345,229	353,830	(8,601)
Operating expenses	170,704	158,263	12,441
Contract services	30,500	26,134	4,366
Capital outlay	61,034	62,797	(1,763)
	<u>607,467</u>	<u>601,024</u>	<u>6,443</u>
Senior center:			
Salaries and employee benefits	113,176	101,085	12,091
Operating expenses	66,431	50,305	16,126
Contract services	2,790	1,776	1,014
	<u>182,397</u>	<u>153,166</u>	<u>29,231</u>
Carteret County Library:			
Appropriations to Tri-County Library	685,800	685,800	-
Civic center:			
Salaries and employee benefits	158,797	161,342	(2,545)
Operating expenses	128,371	123,560	4,811
Contract services	3,200	3,351	(151)
	<u>290,368</u>	<u>288,253</u>	<u>2,115</u>
Total culture and recreation	2,302,919	2,240,196	62,723

(Continued)

General Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual (Continued)
 Year Ended June 30, 2005

	Final Budget	Actual	Variance Positive (Negative)
Education:			
Public schools, current expense	\$ 16,956,989	\$ 16,956,993	\$ (4)
Community college, current expense	1,658,850	1,658,850	-
Community college, capital outlay	83,300	83,180	120
Total education	18,699,139	18,699,023	116
Debt service:			
Principal retirement	4,317,000	4,316,572	428
Interest and fees	2,367,900	2,352,193	15,707
Total debt service	6,684,900	6,668,765	16,135
Total expenditures	59,097,944	57,432,472	1,665,472
Revenue over (under) expenditures	(726,318)	4,072,609	4,798,927
Other financing sources (uses)			
Transfers in (out):			
From Occupancy Tax Fund	775,000	1,062,771	287,771
From E-911 Fund	25,000	-	(25,000)
From Newport Middle School COPS Fund	30,000	-	(30,000)
From 400 Capital Improvements	49,000	-	(49,000)
To School Project Fund	(925,600)	(925,600)	-
To Water Fund	(70,621)	(70,621)	-
To Capital Improvements Fund	(171,345)	(171,345)	-
To Rescue Squad Fund	(16,000)	(16,000)	-
To Fire District Fund	(23,000)	(23,000)	-
Contingency reserves	(177,329)	-	177,329
Appropriated fund balance	1,231,213	-	(1,231,213)
Total other financing sources	726,318	(143,795)	(870,113)
Revenue and other sources over expenditures and other uses	\$ -	3,928,814	\$ 3,928,814
Fund balance			
Beginning, as adjusted		19,326,501	
Ending		<u>\$ 23,255,315</u>	

Summary of Nonmajor Funds

Carteret County, North Carolina

Combining Balance Sheet - Nonmajor Governmental Fund Types
June 30, 2005

	Government Fund Types		
	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets			
Assets:			
Cash and investments	\$ 681,752	\$ 2,330,077	\$ 3,011,829
Receivables, net	1,541,398	-	1,541,398
Total assets	\$ 2,223,150	\$ 2,330,077	\$ 4,553,227
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,046,921	\$ 150,528	\$ 1,197,449
Due to other funds	358,228	-	358,228
Deferred revenue	243,066	-	243,066
Total liabilities	1,648,215	150,528	1,798,743
Fund balances:			
Reserved by State statute	1,301,271	-	1,301,271
Unreserved:			
Designated for subsequent year's expenditures	14,443	296,200	310,643
Undesignated (deficit)	(740,779)	1,883,349	1,142,570
Total fund balance	574,935	2,179,549	2,754,484
Total liabilities and fund balance	\$ 2,223,150	\$ 2,330,077	\$ 4,553,227

Carteret County, North Carolina

Combining Statement of Revenue, Expenditures and Changes in Fund Balances -
 Nonmajor Governmental Fund Types
 Year Ended June 30, 2005

	Government Fund Types		
	Special Revenue Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
Revenue			
Ad valorem taxes	\$ 3,892,067	\$ -	\$ 3,892,067
Other taxes and licenses	5,788,920	-	5,788,920
Sale of land	-	53,865	53,865
Intergovernmental	325,551	1,495,000	1,820,551
Interest	28,725	77,581	106,306
Total revenue	10,035,263	1,626,446	11,661,709
Expenditures			
Current:			
Public safety	5,688,659	-	5,688,659
Economic and physical development	3,297,919	-	3,297,919
Capital outlay	-	5,161,345	5,161,345
Total expenditures	8,986,578	5,161,345	14,147,923
Revenue over (under) expenditures	1,048,685	(3,534,899)	(2,486,214)
Other financing sources (uses)			
Transfers in	66,000	1,411,172	1,477,172
Transfers out	(1,089,771)	(314,227)	(1,403,998)
Total other financing sources (uses)	(1,023,771)	1,096,945	73,174
Net change in fund balance	24,914	(2,437,954)	(2,413,040)
Fund balances			
Beginning	550,021	4,617,503	5,167,524
Ending	\$ 574,935	\$ 2,179,549	\$ 2,754,484

Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specified revenue sources (other than Special Assessments) or to finance specified activities as required by law or administrative regulation.

Carteret County, North Carolina

Nonmajor Special Revenue Funds

Combining Balance Sheet
June 30, 2005

Assets	Rescue Squad Fund	Fire District Fund	Emergency 911 Fund	Occupancy Tax Fund
Cash and investments	\$ 85,562	\$ 62,141	\$ 458,262	\$ -
Receivables:				
Property taxes receivable	98,069	144,997	-	-
Accounts receivable	159,473	241,315	10,931	884,458
Due from other funds	-	-	-	-
Total assets	\$ 343,104	\$ 448,453	\$ 469,193	\$ 884,458
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 203,158	\$ 270,896	\$ 4,420	\$ 519,011
Due to other funds	-	-	-	361,167
Deferred revenue	98,069	144,997	-	-
Total liabilities	301,227	415,893	4,420	880,178
Fund balance (deficit):				
Reserved by State statute	159,473	241,315	10,931	884,458
Unreserved:				
Designated for subsequent year's expenditures				
Undesignated (deficit)	(117,596)	(208,755)	453,842	(880,178)
Total fund balances	41,877	32,560	464,773	4,280
Total liabilities and fund balances	\$ 343,104	\$ 448,453	\$ 469,193	\$ 884,458

Salter Path District Fund	CDBG 2004 Scattered Site Fund	CDBG 2001 Laurel Road Fund	Totals
\$ 59,433	\$ 936	\$ 15,418	\$ 681,752
-	-	-	243,066
2,155	-	-	1,298,332
2,939	-	-	2,939
<u>\$ 64,527</u>	<u>\$ 936</u>	<u>\$ 15,418</u>	<u>\$ 2,226,089</u>

\$ 47,525	\$ 830	\$ 1,081	\$ 1,046,921
-	-	-	361,167
-	-	-	243,066
<u>47,525</u>	<u>830</u>	<u>1,081</u>	<u>1,651,154</u>

5,094	-	-	1,301,271
11,908	106	14,337	14,443
17,002	-	-	(740,779)
<u>17,002</u>	<u>106</u>	<u>14,337</u>	<u>574,935</u>
<u>\$ 64,527</u>	<u>\$ 936</u>	<u>\$ 15,418</u>	<u>\$ 2,226,089</u>

Carteret County, North Carolina

Nonmajor Special Revenue Funds

Combining Statement of Revenue, Expenditures and Changes in Fund Balances (Deficit)
Year Ended June 30, 2005

	Rescue Squad Fund	Fire District Fund	Emergency 911 Fund
Revenues			
Ad valorem taxes	\$ 1,520,276	\$ 2,352,334	\$ -
Other taxes and licenses	581,984	884,063	304,892
Intergovernmental	-	-	-
Interest	-	5,950	12,335
Total revenue	2,102,260	3,242,347	317,227
Expenditures			
Public safety	2,116,260	3,264,527	307,872
Economic and physical development	-	-	-
Total expenditures	2,116,260	3,264,527	307,872
Revenue over (under) expenditures	(14,000)	(22,180)	9,355
Other financing sources (uses)			
Transfers in	16,000	23,000	-
Transfers out	-	-	-
Total other financing sources (uses)	16,000	23,000	-
Revenue and other financing sources over (under) expenditures and other financing uses	2,000	820	9,355
Fund balances (deficit)			
Beginning	39,877	31,740	455,418
Ending	\$ 41,877	\$ 32,560	\$ 464,773

Occupancy Tax Fund	Salter Path District Fund	CDBG 2004 Scattered Site Fund	CDBG 2001 Laurel Road Fund	Totals
\$ -	\$ 19,457	\$ -	\$ -	\$ 3,892,067
4,010,116	7,865	-	-	5,788,920
-	-	43,070	282,481	325,551
9,037	1,403	-	-	28,725
<u>4,019,153</u>	<u>28,725</u>	<u>43,070</u>	<u>282,481</u>	<u>10,035,263</u>
-	-	-	-	5,688,659
2,925,102	47,525	42,137	283,155	3,297,919
<u>2,925,102</u>	<u>47,525</u>	<u>42,137</u>	<u>283,155</u>	<u>8,986,578</u>
1,094,051	(18,800)	933	(674)	1,048,685
-	27,000	-	-	66,000
(1,089,771)	-	-	-	(1,089,771)
<u>(1,089,771)</u>	<u>27,000</u>	<u>-</u>	<u>-</u>	<u>(1,023,771)</u>
4,280	8,200	933	(674)	24,914
-	8,802	(827)	15,011	550,021
<u>\$ 4,280</u>	<u>\$ 17,002</u>	<u>\$ 106</u>	<u>\$ 14,337</u>	<u>\$ 574,935</u>

Carteret County, North Carolina

Rescue Squad Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Ad valorem taxes	\$ 1,513,731	\$ 1,520,276	\$ 6,545
Other taxes and licenses:			
Local option sales tax	562,050	581,984	19,934
Total revenue	<u>2,075,781</u>	<u>2,102,260</u>	<u>26,479</u>
Expenditures			
Public safety:			
County allocation	16,000	14,000	2,000
Beaufort	447,875	437,358	10,517
Broad and Gales Creek	122,488	159,591	(37,103)
Cape Carteret	358,615	359,969	(1,354)
Sea Level	263,160	255,180	7,980
Mitchell Village	137,008	134,621	2,387
Otway	156,370	153,858	2,512
Mill Creek	20,200	19,698	502
Local sales tax and inventory reimbursement	570,065	581,985	(11,920)
Total expenditures	<u>2,091,781</u>	<u>2,116,260</u>	<u>(24,479)</u>
Revenue over (under) expenditures	<u>(16,000)</u>	<u>(14,000)</u>	<u>2,000</u>
Other financing sources			
Transfer from General Fund	16,000	16,000	-
Total other financing sources	<u>16,000</u>	<u>16,000</u>	<u>-</u>
Revenue over expenditures and other financing uses	<u>\$ -</u>	<u>2,000</u>	<u>\$ 2,000</u>
Fund balances			
Beginning		39,877	
Ending		<u>\$ 41,877</u>	

Carteret County, North Carolina

Fire District Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Ad valorem taxes	\$ 2,299,117	\$ 2,352,334	\$ 53,217
Other taxes and licenses:			
Local option sales tax	855,500	884,063	28,563
Interest	-	5,950	5,950
Total revenue	3,154,617	3,242,347	87,730
Expenditures			
Public safety:			
Fire Districts:			
County allocations	23,000	23,000	-
Atlantic	33,969	36,119	(2,150)
Broad and Gales Creek	119,448	117,887	1,561
Mill Creek	18,375	19,584	(1,209)
Newport	224,480	219,389	5,091
Atlantic Beach			-
Mitchell Village, Crab Point	273,616	270,264	3,352
Davis	46,140	47,676	(1,536)
Harlowe	33,082	35,485	(2,403)
Marshallberg	83,930	87,370	(3,440)
Cape Carteret	414,729	437,679	(22,950)
Otway	51,120	54,103	(2,983)
Wildwood	389,571	396,505	(6,934)
Salter Path	112,340	117,244	(4,904)
North River	22,357	23,476	(1,119)
Beaufort	209,614	207,237	2,377
Stacy	14,968	15,309	(341)
Stella	41,385	46,048	(4,663)
Sea Level	27,590	28,700	(1,110)
Cedar Island	23,040	23,818	(778)
South River	70,553	72,432	(1,879)
Harkers Island	97,110	101,138	(4,028)
Operating expenses			-
Local sales tax and inventory reimbursements	847,200	884,064	(36,864)
Total expenditures	3,177,617	3,264,527	(86,910)
Revenue (under) over expenditures	(23,000)	(22,180)	(820)
Other financing sources			
Transfers from General Fund	23,000	23,000	-
Revenue over expenditures and other financing uses	\$ -	820	\$ 820
Fund balances			
Beginning		31,740	
Ending		<u><u>\$ 32,560</u></u>	

Carteret County, North Carolina

Emergency 911 Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Other taxes and licenses:			
Emergency 911 wireless assessment	\$ 60,330	\$ 136,060	\$ 75,730
Emergency 911 telephone assessment	235,000	168,832	(66,168)
Interest	5,000	12,335	7,335
Total revenue	<u>300,330</u>	<u>317,227</u>	<u>16,897</u>
Expenditures			
Public safety:			
Salaries and fringe benefits	46,880	56,977	(10,097)
Operating expenses	242,450	210,505	31,945
Contracted services	50,000	33,430	16,570
Capital outlay	128,000	6,960	121,040
Total expenditures	<u>467,330</u>	<u>307,872</u>	<u>159,458</u>
Revenue (under) over expenditures	<u>(167,000)</u>	<u>9,355</u>	<u>176,355</u>
Other financing sources			
Transfer out	(25,000)	-	25,000
Fund balance appropriated	192,000	-	(192,000)
	<u>167,000</u>	<u>-</u>	<u>(167,000)</u>
Revenue and other financing sources over (under) expenditures	<u>\$ -</u>	<u>9,355</u>	<u>\$ 9,355</u>
Fund balances			
Beginning		<u>455,418</u>	
Ending		<u>\$ 464,773</u>	

Carteret County, North Carolina

Occupancy Tax Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Other taxes and licenses:			
Occupancy taxes	\$ 3,760,000	\$ 4,003,566	\$ 243,566
Occupancy taxes, penalties and interest	2,000	6,550	4,550
Interest	3,000	9,037	6,037
Total revenue	<u>3,765,000</u>	<u>4,019,153</u>	<u>254,153</u>
Expenditures			
Economic and physical development:			
Tourism:			
Tourism Development Authority	1,858,700	1,952,102	(93,402)
Atlantic Beach	100,000	100,000	-
Pine Knoll Shores	225,000	225,000	-
Indian Beach	108,000	108,000	-
Emerald Isle	540,000	540,000	-
Total expenditures	<u>2,831,700</u>	<u>2,925,102</u>	<u>(93,402)</u>
Revenue over expenditures	<u>933,300</u>	<u>1,094,051</u>	<u>160,751</u>
Other financing uses			
Transfers out	(933,300)	(1,089,771)	(156,471)
Revenue and other financing uses	<u>\$ -</u>	<u>4,280</u>	<u>\$ 4,280</u>
Fund balances			
Beginning		-	
Ending		<u>\$ 4,280</u>	

Carteret County, North Carolina

Salter Path District Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Ad valorem taxes	\$ 20,525	\$ 19,457	\$ (1,068)
Other taxes and licenses:			
Local option sales tax	-	7,865	7,865
Interest	-	1,403	1,403
Total revenue	<u>20,525</u>	<u>28,725</u>	<u>8,200</u>
Expenditures			
Economic and physical development:			
Contribution to Indian Beach	20,525	47,525	(27,000)
Total expenditures	<u>20,525</u>	<u>47,525</u>	<u>(27,000)</u>
Revenue over (under) expenditures	-	(18,800)	35,200
Other financing sources			
Transfer from Occupancy fund	27,000	27,000	-
Appropriated fund balance	(27,000)	-	(27,000)
Revenue and other financing sources over (under) expenditures	<u>\$ -</u>	<u>8,200</u>	<u>\$ 8,200</u>
Fund balances			
Beginning		8,802	
Ending		<u>\$ 17,002</u>	

Carteret County, North Carolina

2004 CDBG Scattered Site

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and the Year Ended June 30, 2005

	Total Project Estimate	Prior Years	Actual Current Year	Total to Date
Revenue				
Intergovernmental:				
Federal and State Grants	\$ 400,000	\$ -	\$ 43,070	\$ 43,070
Total	400,000	-	43,070	43,070
Expenditures				
Economic and Physical Development:				
C - 1 Clearance	40,000	-	-	-
C - 1 Relocation	195,000	-	34,807	34,807
C - 1 Rehabilitation	125,000	-	7,258	7,258
C - 1 Administration	40,000	827	72	899
Total	400,000	827	42,137	42,964
Revenues over (under) expenditures	\$ -	\$ (827)	933	\$ 106
Fund balances				
Beginning, deficit			(827)	
Ending			\$ 106	

Carteret County, North Carolina

CDBG 2001 Laurel Road Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and the Year Ended June 30, 2005

	Total Project Estimate	Prior Years	Actual Current Year	Total to Date
Revenue				
Intergovernmental:				
Community Development Block Grant	\$ 934,000	\$ 276,087	\$ 282,481	\$ 558,568
Expenditures				
Economic and Physical Development:				
Clearance	56,800	14,750	435	15,185
Acquisition	12,200	9,542	-	9,542
Relocation	568,600	217,661	282,226	499,887
Rehabilitation	162,000	3,885	-	3,885
Water Improvements	105,000	1,234	-	59,498
Administration	74,400	59,004	494	1,234
Total	979,000	306,076	283,155	589,231
Revenues over (under) expenditures	(45,000)	(29,989)	(674)	\$ (30,663)
Other financing sources				
Transfer from general fund	45,000	45,000	-	45,000
Revenue and other financing sources over expenditures	\$ -	\$ 15,011	(674)	\$ 14,337
Fund balances				
Beginning			15,011	
Ending			<u>\$ 14,337</u>	

Nonmajor Capital Projects Funds

Capital Projects Funds account for all resources used for the acquisition and/or construction of major capital facilities.

Carteret County, North Carolina

Nonmajor Capital Projects Fund

Combining Balance Sheet
June 30, 2005

Assets	County Capital Reserve Fund	County Capital Improvements Fund	School Special Projects Fund	Carteret Community College Fund	Totals
Cash and investments	\$ 494,383	\$ 1,354,338	\$ 321,156	\$ 160,200	\$ 2,330,077
Total assets	\$ 494,383	\$ 1,354,338	\$ 321,156	\$ 160,200	\$ 2,330,077
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ 150,528	\$ -	\$ -	\$ 150,528
Total liabilities	-	150,528	-	-	150,528
Fund balances:					
Unreserved:					
Designated for subsequent expenditures	-	-	136,000	160,200	296,200
Undesignated	494,383	1,203,810	185,156	-	1,883,349
Total fund balances	494,383	1,203,810	321,156	160,200	2,179,549
Total liabilities and fund balances	\$ 494,383	\$ 1,354,338	\$ 321,156	\$ 160,200	\$ 2,330,077

Carteret County, North Carolina

Nonmajor Capital Projects Fund

Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Year Ended June 30, 2005

	County Capital Reserve Fund	County Capital Improvements Fund	School Special Project Fund
Revenue			
Sale of land	\$ 53,865	\$ -	\$ -
Intergovernmental	-	1,495,000	-
Interest	13,505	27,263	10,735
Total revenue	67,370	1,522,263	10,735
Expenditures			
Capital outlay	-	2,775,062	1,432,104
Revenue over (under) expenditures	67,370	(1,252,799)	(1,421,369)
Other Financing Sources (Uses)			
Transfers in	-	171,345	1,239,827
Transfers out	-	-	-
Total other financing sources (uses)	-	171,345	1,239,827
Revenue and other financing sources over (under) expenditures and other financing uses	67,370	(1,081,454)	(181,542)
Fund balances			
Beginning	427,013	2,285,264	502,698
Ending	\$ 494,383	\$ 1,203,810	\$ 321,156

Western Library Fund	Carteret Community College Fund	Totals
\$ -	\$ -	\$ 53,865
-	-	1,495,000
1,417	24,661	77,581
<u>1,417</u>	<u>24,661</u>	<u>1,626,446</u>
-	954,179	5,161,345
<u>1,417</u>	<u>(929,518)</u>	<u>(3,534,899)</u>
-	-	1,411,172
(314,227)	-	(314,227)
<u>(314,227)</u>	<u>-</u>	<u>1,096,945</u>
(312,810)	(929,518)	(2,437,954)
312,810	1,089,718	4,617,503
<u>\$ -</u>	<u>\$ 160,200</u>	<u>\$ 2,179,549</u>

Carteret County, North Carolina

County Capital Reserve Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Sale of land	\$ -	\$ 53,865	\$ 53,865
Interest	-	13,505	13,505
	<u>\$ -</u>	<u>67,370</u>	<u>\$ 67,370</u>
Fund balances			
Beginning		427,013	
Ending		<u>\$ 494,383</u>	

Carteret County, North Carolina

County Capital Improvements Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Intergovernmental	\$ 2,345,068	\$ 1,495,000	\$ (850,068)
Interest	-	27,263	27,263
Total revenues	2,345,068	1,522,263	(822,805)
Expenditures			
Capital outlay:			
Courthouse/Admin renovations	988,000	145,365	842,635
Aerial mapping	62,290	62,288	2
Technology capital	158,779	125,861	32,918
Sheriff equipment console	191,221	121,200	70,021
Harbor docks	36,345	36,345	-
Beach replenishment	2,153,847	1,495,000	658,847
Inre Building study	318,800	318,800	-
Eastern Park Land & Development	429,158	428,248	910
Swinson Park improvements	41,635	41,955	(320)
Contribution to general fund	49,000	-	49,000
Total expenditures	4,429,075	2,775,062	1,654,013
Revenues over (under) expenditures	(2,084,007)	(1,252,799)	831,208
Other financing sources			
Transfer in from General Fund	171,345	171,345	-
Fund Balance Appropriated	1,912,662	-	(1,912,662)
Total other financing sources	2,084,007	171,345	(1,912,662)
Revenue and other financing sources over expenditures	\$ -	(1,081,454)	\$ (1,081,454)
Fund balances			
Beginning		2,285,264	
Ending		<u>\$ 1,203,810</u>	

Carteret County, North Carolina

School Special Projects Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue			
Interest	\$ -	\$ 10,735	\$ 10,735
Expenditures			
Capital outlay, Board of Education	1,728,292	1,432,104	296,188
Revenues over (under) expenditures	(1,728,292)	(1,421,369)	(306,923)
Other financing sources			
Transfer from General Fund	925,600	925,600	-
Transfer from Bond Fund	324,400	314,227	(10,173)
Fund Balance Appropriated	478,292	-	(478,292)
	1,728,292	1,239,827	(488,465)
Revenue and other financing sources over (under) expenditures	\$ -	(181,542)	\$ (181,542)
Fund balances			
Beginning		502,698	
Ending		\$ 321,156	

Carteret County, North Carolina

Western Library Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2005

	Total Project Estimate	Prior Years	Actual Current Year	Total to Date
Revenue				
Intergovernmental:				
Town contributions	\$ 100,000	\$ 100,000	\$ -	\$ 100,000
Friends of the Library contributions	250,000	100,000	-	100,000
Interest	-	7,732	1,417	9,149
	<u>350,000</u>	<u>207,732</u>	<u>1,417</u>	<u>209,149</u>
Expenditures				
Capital outlay	1,345,000	808,333	-	808,333
Revenue over (under) expenditures	<u>(995,000)</u>	<u>(600,601)</u>	<u>1,417</u>	<u>(599,184)</u>
Other financing sources (uses)				
Long-term debt issued	945,000	945,000	-	945,000
Transfer to General Fund	-	(31,589)	-	(31,589)
Transfer to Other Funds	-	-	(314,227)	(314,227)
Transfer from Capital Improvements	50,000	-	-	-
	<u>995,000</u>	<u>913,411</u>	<u>(314,227)</u>	<u>599,184</u>
Revenue and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 312,810</u>	<u>(312,810)</u>	<u>\$ -</u>
Fund balances				
Beginning			<u>312,810</u>	
Ending			<u>\$ -</u>	

Carteret County, North Carolina

Carteret Community College Fund

Schedule of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
From Inception and for the Year Ended June 30, 2005

	Total Project Estimate	Prior Years	Actual Current Year	Total to Date
Revenue				
Interest	\$ -	\$ 72,403	\$ 24,661	\$ 97,064
Expenditures				
Capital outlay:				
Carteret Community College construction	7,600,000	6,582,685	954,179	7,536,864
Revenue over (under) expenditures	<u>(7,600,000)</u>	<u>(6,510,282)</u>	<u>(929,518)</u>	<u>(7,439,800)</u>
Other financing sources (uses)				
Long-term debt issued	7,600,000	7,600,000	-	7,600,000
Revenue and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 1,089,718</u>	<u>(929,518)</u>	<u>\$ 160,200</u>
Fund balances				
Beginning			1,089,718	
Ending			<u>\$ 160,200</u>	

Enterprise Fund

Carteret County, North Carolina

Water Operating Fund

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenue, Operating			
Charges for services	\$ 349,080	\$ 264,634	\$ (84,446)
Total operating revenues	<u>349,080</u>	<u>264,634</u>	<u>(84,446)</u>
Expenditures, Operating			
Cost of sales and services:			
Salaries and benefits	89,996	97,491	(7,495)
Operating expense	93,600	84,740	8,860
Contracted services	8,000	9,650	(1,650)
Total operating expenditures	<u>191,596</u>	<u>191,881</u>	<u>(285)</u>
Operating revenue under operating expenditures	<u>157,484</u>	<u>72,753</u>	<u>(84,731)</u>
Nonoperating Revenue (Expenditures)			
Interest earnings	300	3,800	3,500
Revolving loan interest	(80,700)	(34,135)	46,565
Principal payments	(147,705)	(6,103)	141,602
Total nonoperating revenue (expenditures)	<u>(228,105)</u>	<u>(36,438)</u>	<u>191,667</u>
Revenue (deficiency) over expenditures	<u>(70,621)</u>	<u>36,315</u>	<u>106,936</u>
Other Financing Sources			
Transfer from the General Fund	70,621	70,621	-
Total other financing sources	<u>70,621</u>	<u>70,621</u>	<u>-</u>
Revenue and other sources over expenditures	<u>\$ -</u>	<u>\$ 106,936</u>	<u>\$ 106,936</u>
Reconciliation of modified accrual basis to full accrual basis:			
Revenue and other financing uses over expenditures		\$ 106,936	
Depreciation		(194,582)	
Principal on capital lease		6,102	
Capital contributed		925	
Change in net assets, full accrual basis		<u>\$ (80,619)</u>	

Carteret County, North Carolina

Highway 101 Phase II Water Project Fund

Schedule of Revenue and Expenditures - Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2005

	Total Project Estimate	Actual		
		Prior Years	Current Year	Total to Date
Revenue				
Intergovernmental:				
Tap fees	\$ 54,000	\$ -	\$ 925	\$ 925
Sales tax refund	71,000	-	-	-
	<u>125,000</u>	<u>-</u>	<u>925</u>	<u>925</u>
Expenditures				
Capital outlay	2,925,000	557,547	2,090,189	2,647,736
Revenue over (under) expenditures	<u>(2,800,000)</u>	<u>(557,547)</u>	<u>(2,089,264)</u>	<u>(2,646,811)</u>
Other financing sources (uses)				
Drinking Water State Revolving Loan	2,800,000	-	2,421,727	2,421,727
Revenue and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ (557,547)</u>	<u>332,463</u>	<u>\$ (225,084)</u>
Fund deficit				
Beginning			<u>(557,547)</u>	
Ending			<u>\$ (225,084)</u>	

Agency Funds

Carteret County, North Carolina

Agency Funds

Combining Balance Sheet
June 30, 2005

Assets	Sheriff's Department Fund	Social Services Trust Fund	Totals
Cash, investments and receivables	<u>\$ 21,722</u>	<u>\$ 29,274</u>	<u>\$ 50,996</u>
Liabilities			
Accounts payable and accrued liabilities	<u>\$ 21,722</u>	<u>\$ 29,274</u>	<u>\$ 50,996</u>

Carteret County, North Carolina

Agency Funds

Combining Statement of Changes in Assets and Liabilities
Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Sheriff's Department Fund:				
Assets, cash, investments and receivables	\$ 29,779	\$ 133,350	\$ 141,407	\$ 21,722
Liabilities	\$ 29,779	\$ 133,350	\$ 141,407	\$ 21,722
Social Services Trust Fund:				
Assets, cash and investments	\$ 17,644	\$ 183,422	\$ 171,792	\$ 29,274
Liabilities	\$ 17,644	\$ 183,422	\$ 171,792	\$ 29,274
Totals - All Agency Funds:				
Assets, cash and investments	\$ 47,423	\$ 316,772	\$ 313,199	\$ 50,996
Liabilities:				
Accounts payable and accrued liabilities	\$ 47,423	\$ 316,772	\$ 313,199	\$ 50,996

Governmental Funds Capital Assets

Carteret County, North Carolina

Capital Assets Used in the Operation of Governmental Funds

Comparative Schedules by Source
June 30, 2005

	2005	2004
Governmental funds capital assets:		
Land, airport	\$ 169,549	\$ 169,549
Land, other	3,567,330	2,837,033
Construction in progress	266,565	479,239
Buildings	27,229,668	25,396,732
Vehicles	3,129,963	3,146,753
Equipment	3,284,113	2,904,740
Airport facilities	1,524,747	1,524,747
Other improvements	4,028,685	3,197,473
Total governmental funds capital assets	<u>\$ 43,200,620</u>	<u>\$ 39,656,266</u>
Investment in governmental funds capital assets		
General Fund	\$ 42,934,055	\$ 38,337,105
Capital Project Funds	266,565	1,319,161
Total investment in governmental funds capital assets	<u>\$ 43,200,620</u>	<u>\$ 39,656,266</u>

Carteret County, North Carolina

Capital Assets Used in the Operation of Governmental Funds

Schedule by Function and Activity
June 30, 2005

Function and Activity	Land	Buildings	Vehicles	Equipment	Airport Facilities	Other Improvements	Construction in Progress	Total
General Government:								
County Administration	\$ -	\$ -	\$ -	\$ 18,880	\$ -	\$ -	\$ -	\$ 18,880
Tax Administration	-	-	69,148	272,345	-	-	-	341,493
Register of Deeds	-	17,665	-	113,290	-	16,000	-	146,955
Elections	-	-	-	316,175	-	-	-	316,175
Information Technology	-	-	-	697,218	-	-	-	697,218
Public Buildings	1,245,934	9,347,194	174,826	11,835	-	438,432	145,365	11,363,586
Other	-	-	-	22,259	-	-	-	22,259
Total General Government	1,245,934	9,364,859	243,974	1,452,002	-	454,432	145,365	12,906,566
Public Safety:								
Law Enforcement	-	8,614,309	1,010,111	207,456	-	339,901	121,200	10,292,977
Emergency Services	-	16,850	211,315	1,221,931	-	-	-	1,450,096
Total Public Safety	-	8,631,159	1,221,426	1,429,387	-	339,901	121,200	11,743,073
Transportation	169,549	-	547,685	-	1,524,747	131,534	-	2,373,515
Environmental Protection	153,875	-	64,489	13,778	-	-	-	232,142
Economic and Physical Development	125,606	-	87,899	16,912	-	-	-	230,417
Human Services	346,775	5,813,237	764,895	195,474	-	-	-	7,120,381
Culture and Recreation	1,695,140	3,420,413	199,595	176,560	-	3,102,818	-	8,594,526
Total governmental funds capital assets	\$ 3,736,879	\$ 27,229,668	\$ 3,129,963	\$ 3,284,113	\$ 1,524,747	\$ 4,028,685	\$ 266,565	\$ 43,200,620

Carteret County, North Carolina

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes by Function and Activity
Year Ended June 30, 2005

Function and Activity	Governmental Funds				Governmental Funds
	Capital Assets June 30, 2004	Additions	Deductions	Transfers	Capital Assets June 30, 2005
General Government:					
County Administration	\$ 76,275	\$ 18,880	\$ 76,275	\$ -	\$ 18,880
Tax Administration	339,216	70,673	48,520	(19,876)	341,493
Register of Deeds	102,473	94,607	50,125	-	146,955
Elections	316,175	-	-	-	316,175
Information Technology	603,912	101,422	9,995	1,879	697,218
Public Buildings	8,717,863	2,521,901	-	123,822	11,363,586
Other	7,202	5,559	-	9,498	22,259
Total General Government	10,163,116	2,813,042	184,915	115,323	12,906,566
Public Safety:					
Law Enforcement	10,300,223	371,887	191,500	(187,633)	10,292,977
Emergency Services	1,296,199	57,715	-	96,182	1,450,096
Building Inspections	66,882	-	-	(66,882)	-
Total Public Safety	11,663,304	429,602	191,500	(158,333)	11,743,073
Transportation	2,373,515	-	-	-	2,373,515
Environmental Protection	83,672	196,626	-	(48,156)	232,142
Economic & Physical Development	147,766	11,491	34,778	105,938	230,417
Human Services	7,209,575	12,300	86,718	(14,776)	7,120,381
Culture & Recreation	8,015,318	600,864	21,660	4	8,594,526
Total governmental funds capital assets	\$ 39,656,266	\$ 4,063,925	\$ 519,571	\$ -	\$ 43,200,620

Other Financial Information

Other financial information includes additional detailed analysis of particular aspects of the County's financial position or results of operations.

Carteret County, North Carolina

Schedule of Ad Valorem Taxes Receivable
June 30, 2005

Fiscal Year	Uncollected Balance June 30, 2004	Additions	Collections	Adjustments	Uncollected Balance June 30, 2005
2004-2005	\$ -	\$ 33,055,434	\$ 32,055,875	\$ (18,386)	\$ 981,173
2003-2004	922,727	-	601,145	3,584	325,166
2002-2003	401,307	-	182,816	14,976	233,467
2001-2002	268,340	-	91,896	2,293	178,737
2000-2001	279,968	-	41,566	915	239,317
1999-2000	73,699	-	13,221	767	61,245
1998-1999	36,800	-	6,724	(249)	29,827
1997-1998	40,173	-	4,345	(531)	35,297
1996-1997	25,719	-	1,526	(358)	23,835
1995-1996	28,554	-	273	(201)	28,080
1994-1995	20,578	-	372	(1)	20,205
	<u>\$ 2,097,865</u>	<u>\$ 33,055,434</u>	<u>\$ 32,999,759</u>	<u>\$ 2,809</u>	<u>2,156,349</u>
Less write-off 1994-1994 tax year					<u>20,205</u>
					2,136,144
Less allowance for uncollectible ad valorem taxes receivable					624,580
Net property taxes receivable - General Fund					<u>\$ 1,511,564</u>
Reconciliation with revenue: Ad valorem taxes- General Fund					<u>\$ 32,999,760</u>

Carteret County, North Carolina

Analysis of Current Year's Tax Levy
Year Ended June 30, 2005

	County 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	\$ 7,703,173,650	0.42	\$ 32,353,328	\$ 30,900,256	\$ 1,453,072
Motor vehicles taxes at prior year's rate	167,168,017	0.42	702,106	-	702,106
Total	<u>7,870,341,667</u>		<u>33,055,434</u>	<u>30,900,256</u>	<u>2,155,178</u>
Discoveries:					
Current year taxes	35,071,667		147,301	146,940	361
Corrections	23,636,905		99,275	107,736	(8,461)
Total	<u>58,708,572</u>		<u>246,576</u>	<u>254,676</u>	<u>(8,100)</u>
Abatements	(63,086,429)		(264,962)	(208,694)	(56,268)
Total property valuation	<u><u>\$ 7,865,963,810</u></u>				
Net levy-General Fund			33,037,048	30,946,238	2,090,810
Uncollected taxes at June 30, 2005 - General Fund			981,173	685,717	295,456
Current year's taxes collected - General Fund			<u>\$ 32,055,875</u>	<u>\$ 30,260,521</u>	<u>\$ 1,795,354</u>
Current levy collection percentage - General Fund			<u>97.03%</u>	<u>97.78%</u>	<u>85.87%</u>

Statistical Section

Government-Wide Revenues

Fiscal Year	Program Revenues			General Revenues					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Grants and Contributions Not Restricted to Specific Programs	Unrestricted Investment Earnings	Miscellaneous	Water	Total
2003	\$ 3,983,307	\$ 7,718,090	\$ 1,965,780	\$50,739,617	\$ 669,380	\$ 447,847	\$ 189,567	\$ 1,793,562	\$67,507,150
2004	4,803,148	8,567,418	2,300,119	52,993,102	695,920	266,890	119,700	176,391	69,922,688
2005	5,472,379	10,857,170	-	56,069,539	155,208	612,594	2,422,594	268,434	75,857,918

Carteret County, North Carolina

Table 2

Government-Wide Expenses

Fiscal Year	General Government	Public Safety	Transportation	Physical Development	Environmental Protection	Human Services	Cultural and Recreational	Education	Long-Term Debt	Water	Total
2003	\$ 4,734,358	\$ 11,051,063	\$ 641,203	\$ 3,861,247	\$ 2,443,323	\$ 13,651,297	\$ 2,056,136	\$ 23,378,135	\$ 2,415,433	\$ 145,753	\$ 64,377,948
2004	3,700,481	11,636,799	669,794	4,271,109	2,964,017	14,105,489	4,260,435	27,615,077	3,339,354	394,360	72,956,915
2005	4,759,100	12,715,313	690,254	6,274,478	2,565,112	14,295,871	2,461,256	21,085,306	2,373,932	420,599	67,641,221

General Governmental Revenue, By Source (1)
Last Ten Fiscal Years

Fiscal Year Ended June 30	Ad Valorem Taxes	Other Taxes and Licenses	Permits and Fees	Intergovernmental	Sales and Services	Investment Earnings	Miscellaneous	Total Revenue
1996	\$ 20,280,173	\$ 10,083,350	\$ 1,073,019	\$ 5,910,131	\$ 1,698,697	\$ 832,806	\$ 60,618	\$ 39,938,794
1997	21,305,801	10,610,240	1,165,644	7,906,364	931,881	931,114	216,429	43,067,473
1998	23,830,199	11,866,765	1,291,897	7,676,826	943,704	1,147,860	200,659	46,957,910
1999	24,481,785	12,539,196	1,331,064	7,280,730	1,006,710	1,096,689	531,407	48,267,581
2000	29,352,572	13,198,118	1,245,765	10,270,375	1,305,467	1,253,627	224,114	56,850,038
2001	30,819,589	14,023,012	1,423,786	8,615,850	1,236,249	1,117,627	132,050	57,368,163
2002	34,552,936	15,059,252	1,602,838	9,521,296	1,567,251	358,359	175,399	62,837,331
2003	34,856,263	12,254,468	2,111,540	8,259,055	1,784,053	315,026	308,426	59,888,831
2004	36,273,316	17,090,746	2,618,847	11,440,148	1,862,663	200,455	223,359	69,709,534
2005	37,171,758	18,828,672	3,093,945	11,012,071	1,742,529	586,909	379,277	72,815,161

Notes:

(1) Includes Annually Budgeted Funds: General, E-911, Fire Districts, Rescue Districts, Occupancy, Salter Path District, Capital Reserve, Capital Improvements, and School Special Projects Funds.

General Governmental Expenditures, By Function (1)
Last Ten Fiscal Years

Fiscal Year Ended June 30	General Government	Public Safety	Transportation	Economic and Physical Development	Human Services	Environmental Protection	Cultural and Recreational	Education	Capital Projects	Debt Service	Total Expenditures
1996	\$ 2,853,875	\$ 6,096,750	\$ 47,877	\$ 888,771	\$ 8,918,409	\$ 2,944,919	\$ 1,064,194	\$ 10,399,586	\$ 705,722	\$ 3,860,088	\$ 37,780,191
1997	2,943,541	6,448,719	12,080	866,084	8,364,160	4,158,262	1,305,786	11,294,206	213,581	4,429,954	40,036,373
1998	2,885,480	6,840,765	186,103	940,857	8,835,890	3,732,955	1,733,648	11,564,543	794	5,333,642	42,054,677
1999	2,993,951	7,543,507	66,115	1,102,181	9,469,558	3,808,134	1,695,707	15,099,455	473,995	5,260,003	47,512,606
2000	3,799,606	8,033,685	360,064	1,134,822	11,622,653	4,014,794	2,036,509	18,897,588	2,363,086	5,189,390	57,452,197
2001	3,646,451	8,734,138	424,564	1,222,167	13,179,127	3,303,036	2,320,777	19,679,070	2,961,739	6,996,525	62,467,594
2002	3,290,839	9,500,776	332,365	1,835,919	13,261,242	2,547,719	1,988,228	19,570,613	3,245,972	6,099,780	61,673,453
2003	3,331,803	10,528,723	452,826	1,250,882	13,551,316	2,434,842	2,029,285	17,738,085	620,315	11,579,069	63,517,146
2004	3,438,530	11,294,641	579,790	4,016,911	13,719,420	2,958,295	2,007,580	17,976,423	3,296,200	7,365,733	66,653,523
2005	4,190,354	12,472,725	493,593	4,490,027	14,094,168	2,744,907	2,240,196	18,699,023	4,207,166	6,668,765	70,300,924

Notes:

(1) Includes Annually Budgeted Funds: General, E-911, Fire Districts, Rescue Districts, Occupancy, Salter Path District, Capital Reserve, Capital Improvements, and School Special Projects Funds.

Property Tax Levies & Collections (1)(2)
Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levy (1)(2)	Collections of Current Levy	Percent of Current Taxes Collected	Collections of Prior Levy	Total Property Taxes Collected	Ratio of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes to Tax Levy
1996	\$ 19,857,390	\$ 19,069,463	96.03%	\$ 1,203,897	\$ 20,273,360	102.09%	\$ 1,943,076	9.79%
1997	20,566,276	19,840,154	96.47%	1,544,718	21,384,872	103.98%	1,478,593	7.19%
1998	24,033,750	23,070,030	95.99%	619,904	23,689,934	99.00%	1,787,545	7.44%
1999	24,437,491	23,576,414	96.48%	782,988	24,359,402	99.68%	1,648,549	6.75%
2000	29,627,049	28,576,260	96.45%	589,834	29,166,094	98.45%	2,050,775	6.93%
2001	28,773,869	27,734,112	96.39%	794,819	28,528,931	99.15%	1,895,967	6.59%
2002	31,719,329	30,443,658	95.98%	959,363	31,403,021	99.00%	2,729,823	8.61%
2003	30,970,996	29,898,714	96.54%	1,223,876	31,122,590	100.49%	2,235,082	7.22%
2004	32,140,548	31,217,821	97.13%	1,044,755	32,262,576	100.38%	2,097,864	6.53%
2005	33,055,434	32,055,875	97.03%	943,885	32,999,760	99.83%	2,136,144	6.46%

Notes:

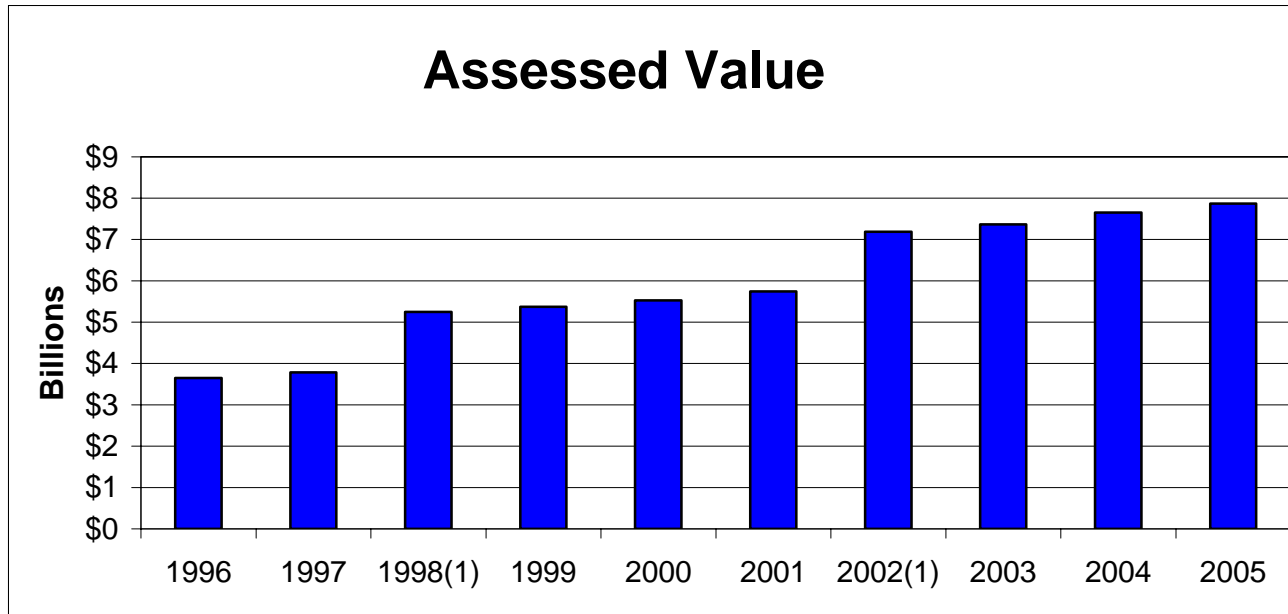
(1) Includes General and Special Revenue Funds fiscal year 1995 - 2000; fiscal years 2001 - 2005 include General Fund.

(2) Does not include reimbursement in-lieu-of taxes and Senior Citizens Exemptions

**Assessed Value of Property (2)(3)
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Real Property	Personal Property	State Certified	Total Assessed Valuation
1996	\$ 3,117,310,410	\$ 450,304,682	\$ 80,237,556	\$ 3,647,852,648
1997	3,233,221,306	467,568,251	80,253,554	3,781,043,111
1998 (1)	4,611,176,025	544,308,312	92,773,636	5,248,257,973
1999	4,829,925,832	449,038,101	94,814,401	5,373,778,334
2000	4,840,679,280	591,147,538	92,154,411	5,523,981,229
2001	4,951,482,137	692,891,457	97,049,097	5,741,422,691
2002 (1)	6,400,566,842	687,404,277	97,192,027	7,185,163,146
2003	6,538,009,873	731,270,275	97,130,761	7,366,410,909
2004	6,842,280,986	711,166,262	99,064,090	7,652,511,338
2005	7,018,633,533	747,563,922	99,766,355	7,865,963,810

- Notes: (1) Reflects revaluation year
 (2) Amounts are net of Senior Citizens Exemption
 (3) Amount includes discoveries and abatements
 (4) Assessed value is equal to estimated actual value



**Property Tax Rates - Direct and Underlying Governments
(Per \$100.00 of Assessed Value)
Last Ten Fiscal Years**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<i>Municipalities</i>										
Carteret County	0.5100	0.5100	0.4200	0.4200	0.5000	0.5100	0.4400	0.4200	0.4200	0.4200
Atlantic Beach	0.4500	0.4500	0.3500	0.3100	0.3100	0.2900	0.2100	0.2300	0.2300	0.2300
Beaufort	0.4050	0.4050	0.3450	0.3450	0.3450	0.3850	0.3400	0.3600	0.3600	0.3600
Bogue ¹		0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500
Cape Carteret	0.3500	0.3500	0.2600	0.2600	0.2600	0.2600	0.2300	0.2300	0.2300	0.2300
Cedar Point	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500
Emerald Isle	0.2000	0.2150	0.1750	0.1850	0.1950	0.1950	0.1750	0.1850	0.1750	0.1650
Indian Beach	0.1900	0.2300	0.1700	0.1700	0.1700	0.1700	0.1600	0.1600	0.1600	0.0900
Morehead City	0.4500	0.4500	0.4000	0.4600	0.4000	0.4000	0.3800	0.3800	0.3800	0.3800
Newport	0.4600	0.4600	0.4200	0.4200	0.4200	0.4500	0.4300	0.4300	0.4300	0.4300
Pelletier ²			0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500
Pine Knoll Shores	0.2100	0.2100	0.1600	0.1600	0.1600	0.1600	0.1600	0.1700	0.1800	0.1800
<i>Fire Districts</i>										
Atlantic	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0400	0.0550	0.0650	0.0650
Atlantic Beach ⁴	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	-	-	-
Beaufort	0.0825	0.0825	0.0680	0.0600	0.0600	0.0600	0.0500	0.0600	0.0600	0.0600
Broad & Gales Creek	0.0600	0.0600	0.0500	0.0400	0.0400	0.0400	0.0350	0.0400	0.0400	0.0400
Cape Carteret	0.0400	0.0400	0.0400	0.0400	0.0400	0.0550	0.0700	0.0700	0.0700	0.0700
Cedar Island	0.0900	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
Davis	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
Harkers Island	0.0410	0.0410	0.0400	0.0400	0.0400	0.0600	0.0600	0.0600	0.0600	0.0600
Harlowe	0.0500	0.0500	0.0550	0.0550	0.0550	0.0550	0.0550	0.0550	0.0550	0.0550
Marshallberg	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0600	0.0700	0.0700	0.0700
Mill Creek	0.0600	0.0600	0.0600	0.0600	0.0550	0.0700	0.0550	0.0550	0.0550	0.0550
Mitchell Village	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800
Newport	0.0950	0.0950	0.0650	0.0600	0.0600	0.0600	0.0550	0.0700	0.0800	0.0800
North River	0.0900	0.0900	0.0900	0.0900	0.0900	0.0900	0.0700	0.0750	0.0750	0.0750
Otway	0.0500	0.0500	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400
Salter Path	0.0600	0.0600	0.0600	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500
Sea Level	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000	0.1000
South River/ Merrimon	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700	0.0700
Stacy	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800	0.0800
Stella	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500	0.0500
Wildwood	0.0500	0.0500	0.0600	0.0600	0.0600	0.0600	0.0500	0.0800	0.0750	0.0950
<i>Rescue Districts</i>										
Beaufort	0.4500	0.0450	0.0450	0.0450	0.0450	0.0450	0.0400	0.0550	0.0550	0.0550
Broad & Gales Creek	0.0200	0.0200	0.0200	0.0150	0.0150	0.0200	0.0200	0.0350	0.0450	0.0550
Cape Carteret	0.0250	0.0250	0.0250	0.0200	0.0470	0.0500	0.0500	0.0500	0.0500	0.0550
Mitchell Village	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400	0.0400
Otway	0.0300	0.0300	0.0300	0.0250	0.0500	0.0600	0.0450	0.0550	0.0550	0.0550
Sea Level	0.0700	0.0700	0.0900	0.0900	0.1000	0.1000	0.1375	0.1675	0.1675	0.1675
Mill Creek ³					0.0100	0.0100	0.0100	0.0200	0.0200	0.0200
<i>Beach Nourishment Districts</i>										
Salter Path ⁵								0.4300	0.4300	0.4300
Indian Beach Non Ocean Front ⁵								0.0500	0.0500	0.0200
Indian Beach Ocean Front ⁵								0.4800	0.4800	0.2200
Emerald Isle Non Ocean Front ⁵								0.0300	0.0300	0.0300
Emerald Isle Ocean Front ⁵								0.4800	0.4800	0.4800
Pine Knoll Shores Ocean Front ⁶									0.4200	0.4200
Pine Knoll Shores Non Ocean Front ⁶									0.0600	0.0600

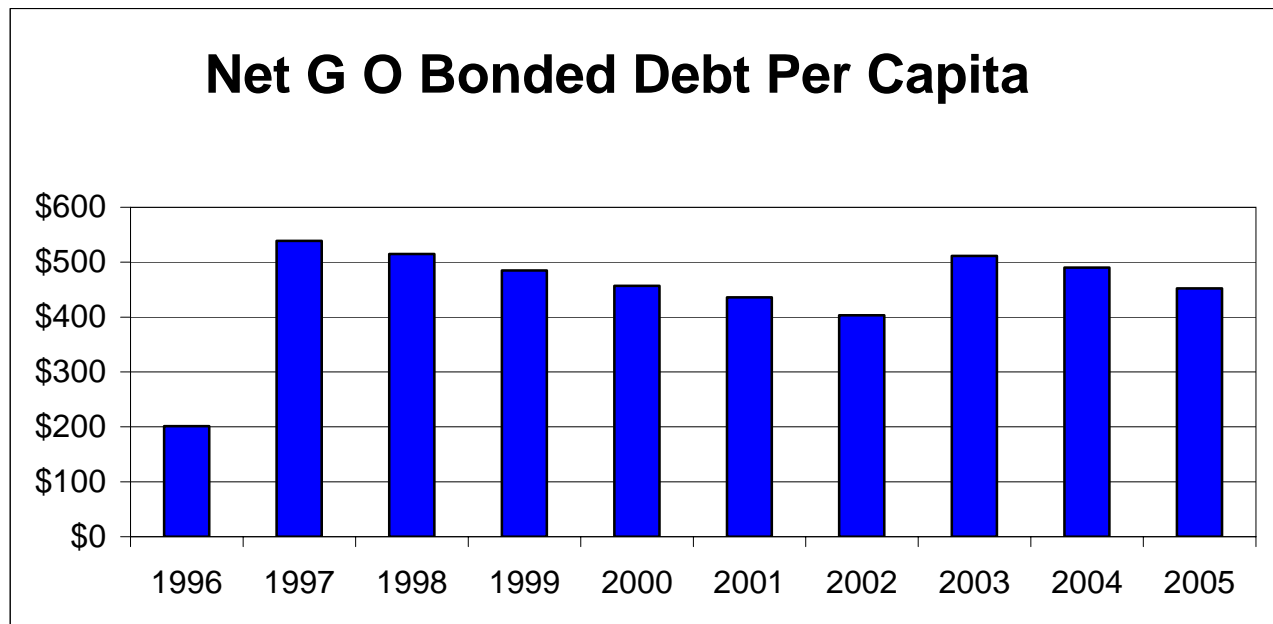
Notes:

- ¹First Year Tax District 1997
- ²First Year Tax District 1998
- ³First Year Tax District 2000
- ⁴Annexed by Town of Atlantic Beach 2002
- ⁵First Year Tax District 2004
- ⁶First Year Tax District 2005

Ratio of General Obligation Debt to Assessed Value and General Obligation Bonded Debt Per Capita Last Ten Fiscal Years

Fiscal Year Ended June 30	Assessed Value	Net General Obligation Bonded Debt	Ratio of Net General Obligation Bonded Debt to Assessed Value	Population (1)	Net General Obligation Bonded Debt Per Capita
1996	\$ 3,647,582,648	\$ 11,769,877	0.33%	58,385	\$ 201.59
1997	3,781,043,111	32,000,000	0.85%	59,370	539.00
1998	5,248,257,973	30,750,000	0.59%	59,725	514.86
1999	5,373,778,334	29,450,000	0.55%	60,719	485.03
2000	5,523,981,229	28,150,000	0.51%	61,587	457.08
2001	5,644,373,594	26,850,000	0.46%	61,600	435.88
2002	7,185,163,146	25,150,000	0.35%	62,326	403.52
2003	7,366,410,909	31,050,000	0.42%	60,712	511.43
2004	7,652,511,338	29,695,000	0.39%	60,574	490.23
2005	7,865,963,810	27,650,000	0.35%	61,122	452.37

Notes: (1) NC Office of State Planning



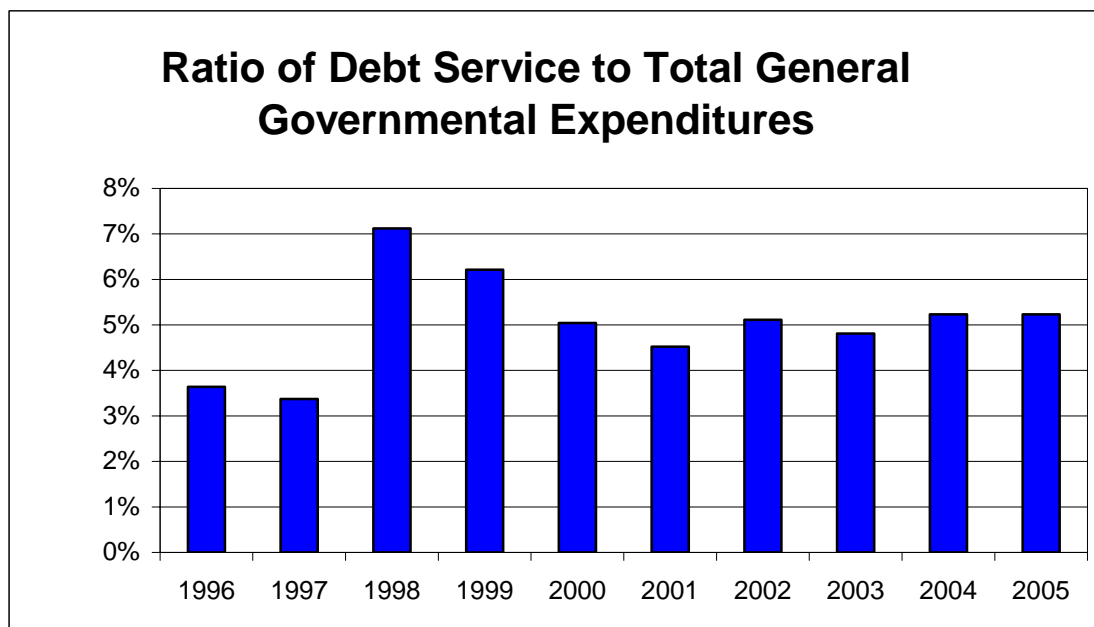
Computation of Legal Debt Margin
June 30, 2005

Assessed Values of Property		<u>\$ 7,865,963,810</u>
Debt Limit 8 percent of Assessed Value		629,277,105
Gross Debt:		
Total Bonded Debt	\$ 48,195,000	
Installment Debt	<u>2,100,000</u>	
Total Amount of Debt Applicable to Debt Limit		<u>50,295,000</u>
Legal Debt Margin		<u>\$ 578,982,105</u>

**Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt to Total General Governmental Expenditures (2)
Last Ten Fiscal Years**

Fiscal Year Ended June 30	Principal	Interest on Bonds	Total Debt Service (1)	Total General Governmental Expenditures	Debt Service to Total General Governmental Expenditures
1996	\$ 700,000	\$ 675,538	\$ 1,375,538	\$ 37,780,191	3.64%
1997	700,000	647,788	1,347,788	40,036,373	3.37%
1998	1,250,000	1,741,538	2,991,538	4,205,467	7.12%
1999	1,250,000	1,699,788	2,949,788	47,512,606	6.21%
2000	1,300,000	1,595,738	2,895,738	57,452,197	5.04%
2001	1,300,000	1,521,488	2,821,488	62,467,594	4.52%
2002	1,700,000	1,446,500	3,146,500	61,652,928	5.11%
2003	1,700,000	1,355,400	3,055,400	63,517,146	4.81%
2004	2,265,000	1,223,348	3,488,348	66,653,523	5.23%
2005	2,045,000	1,223,348	3,268,348	67,242,190	5.23%

Notes: (1) This figure includes total debt service for general obligation bonded debt and excludes refunded debt.
 (2) Includes annually budgeted funds: General, E-911, Fire Districts, Rescue Districts, Occupancy, Capital Reserve, Capital Improvements, Salter Path District, and School Special Projects Funds.



Computation of Direct and Underlying Debt
 General Obligation Bonds
 June 30, 2005

	Net General Obligation Bonded Debt	Percent Applicable to County		Amount Applicable to County
Direct:				
Carteret County	\$ 27,650,000	100.00	%	\$ 27,650,000
Underlying:				
Town of Beaufort	412,200	100.00		412,200
Town of Atlantic Beach	550,145	100.00		550,145
Town of Emerald Isle	14,650,000	100.00		14,650,000
Town of Newport	1,052,300	100.00		1,052,300
Town of Pine Knoll Shores	7,525,000	100.00		7,525,000
Town of Indian Beach	1,600,000	100.00		1,600,000
	<u>\$ 53,439,645</u>			<u>\$ 53,439,645</u>

Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	Unemployment Rate (3)	Public School Enrollment (4)
1996	58,385	\$ 20,003	5.20%	8,259
1997	59,370	20,901	4.54%	8,176
1998	59,725	21,537	4.61%	8,507
1999	60,719	21,375	4.40%	8,221
2000	61,587	21,644	3.80%	8,326
2001	61,600	24,059	3.10%	8,271
2002	62,326	26,090	4.98%	8,177
2003	60,712	26,090	5.30%	8,163
2004	60,574	28,451	4.66%	8,259
2005	61,112	28,239	4.59%	8,237

Data Sources:

- (1) North Carolina Office of State Planning
- (2) Economic Development Council
- (3) North Carolina Employment Security Commission
- (4) Carteret County Board of Education

Ten Largest Taxpayers
June 30, 2005

Name of Taxpayer	Type of Enterprise	Assessed Valuation	Percent of Total Assessed Valuation
Carteret-Craven Electric Membership Corp.	Utility	\$ 33,204,921	0.422%
Open Grounds Farm, Inc.	Farm	31,499,728	0.400%
Progress Energy	Utility	29,995,452	0.381%
Carolina Telephone	Utility	29,361,840	0.373%
Atlantic Hotel Ltd	Hotel	15,894,500	0.202%
Atlantic Veneer Corp.	Manufacturing	15,078,802	0.192%
USPG Portfolia One LLC	Retail	12,375,792	0.157%
Time Warner Entertainment	Communications	12,223,583	0.155%
Weyerhaeuser Company	Real Estate	11,875,995	0.151%
Wal-Mart Stores East Inc.	Retail	11,815,034	0.150%
		<u>\$ 203,325,647</u>	<u>2.585%</u>

Data Source: Provided by Carteret County Tax Department

Property Value, Construction, and Bank Deposits
Last Ten Fiscal Years

Fiscal Year Ended June 30	Property Value	Construction (2) Number of Permits Issued	Construction Value	Bank Deposits (1)
1996	\$ 3,647,582,648	3,153	\$ 35,647,790	\$ 523,958,000
1997	3,781,043,111	3,275	40,265,512	555,039,000
1998(3)	5,248,257,973	3,619	54,069,500	592,710,000
1999	5,373,778,334	2,665	46,128,300	613,821,000
2000	5,523,981,229	2,652	53,631,985	623,397,000
2001	5,644,373,594	1,559	91,224,302	662,955,000
2002 (3)	7,185,163,146	1,986	54,738,045	676,394,000
2003	7,366,410,909	2,710	54,070,339	687,816,000
2004	7,652,511,338	3,326	70,211,131	808,168,000
2005	7,865,963,810	3,804	102,874,400	*

Notes: * Not Available

(1) North Carolina State Banking Commission

(2) Carteret County Planning Department (does not include any incorporated areas for municipalities)

(3) Revaluation Year

Carteret County, North Carolina

Miscellaneous Statistics
June 30, 2005

Table 15

Date of Establishment	1722
Form of Government	Commission-Manager
Area	526 Square Miles
Carteret County Facilities and Services:	
Fire protection:	
Number of stations	24
Number of firemen and officers	615
Number of patrol units	1,850
Police protection:	
Number of stations	1
Number of deputies and officers	50
Number of patrol units	20
Inspections:	
Number of building permits issued (1)	3,326
Cultural and recreational:	
Number of parks	8 with 167 total acres
Number of public beach accesses/ boat ramps	9
Facilities and services not included in primary government:	
Hospitals (2):	
Number of hospitals	1
Number of patient beds	117
Facilities and services not included in the reporting entity:	
Education (3):	
Number of schools	16
Number of teachers	700
Number of students	8,237
Cultural and recreational (4):	
Number of libraries	4
Number of volumes	85,820
Sources:	
(1) Permits issued for fiscal year 2005	
(2) Carteret General Hospital	
(3) Carteret County Board of Education	
(4) Carteret County Library	

COMPLIANCE SECTION

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of County Commissioners
Carteret County, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Carteret County, North Carolina as of and for the year ended June 30, 2005, which collectively comprise Carteret County's basic financial statements, and have issued our report thereon dated September 30, 2005, except for Note 19 as to which the date is November 8, 2005. We did not audit the financial statements of Carteret County General Hospital Corporation, Carteret County Alcoholic Beverage Control ("ABC") Board, Beaufort-Morehead City Airport Authority or Carteret County Tourism Development Authority, which are all of the County's discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors. 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. The financial statements of Carteret County General Hospital Corporation and Carteret County Alcoholic Beverage Control Board were not audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carteret County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Carteret County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as Item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Carteret County'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 and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we report to management of Carteret County in a separate letter dated September 30, 2005.

This report is intended solely for the information and use of the county commissioners, management, federal and State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
September 30, 2005

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of County Commissioners
Carteret County, North Carolina

Compliance

We have audited the compliance of Carteret County, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget ("OMB") Circular A-133, *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2005. Carteret County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Carteret County's management. Our responsibility is to express an opinion on Carteret County's compliance based on our audit.

Carteret County's basic financial statements include the operations of Carteret General Hospital Corporation, Carteret County Alcoholic Beverage Control Board ("ABC Board"), Beaufort-Morehead City Airport Authority, and Carteret County Tourism Development Authority, which are all of the discretely presented component units of Carteret County. The financial statements of Carteret County General Hospital Corporation and ABC Board were not audited in accordance with *Government Auditing Standards*, OMB Circular A-133, or the State Single Audit Implementation Act. The financial statements of Carteret County Tourism Development Authority and Beaufort-Morehead Airport Authority were audited in accordance with *Government Auditing Standards*, but not in accordance with OMB Circular A-133 or the State Single Audit Implementation Act. Our audit, described below, did not include the operations of the County's discretely presented component units.

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

In our opinion, Carteret County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Carteret County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Carteret County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the county commissioners, management, federal and State awarding agencies and pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
September 30, 2005

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major State Program and on Internal Control Over Compliance in Accordance With Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

To the Board of County Commissioners
Carteret County, North Carolina

Compliance

We have audited the compliance of Carteret County, North Carolina, with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 2005. Carteret County's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of Carteret County's management. Our responsibility is to express an opinion on Carteret County's compliance based on our audit.

Carteret County's basic financial statements include the operations of Carteret General Hospital Corporation, Carteret County Alcoholic Beverage Control Board ("ABC Board"), Beaufort-Morehead City Airport Authority, and Carteret County Tourism Development Authority, which are all of the discretely presented component units of Carteret County. The financial statements of Carteret County General Hospital Corporation and ABC Board were not audited in accordance with *Government Auditing Standards*, applicable sections of OMB Circular A-133 or the State Single Audit Implementation Act. The financial statements of Carteret County Tourism Development Authority and Beaufort-Morehead City Airport Authority were audited in accordance with *Government Auditing Standards*, but not in accordance with applicable sections of OMB Circular A-133 or the State Single Audit Implementation Act. Our audit, described below, did not include the operations of the County's discretely presented component units.

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

In our opinion, Carteret County complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Carteret County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered Carteret County's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the county commissioners, management, State awarding agencies and pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be, and should not be, used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Morehead City, North Carolina
September 30, 2005

Carteret County, North Carolina

Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

I - Summary of Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> None Reported
Type of auditor's report issued on compliance for major federal programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) OMB Circular A-133?	<u> </u> Yes	<u> X </u> No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA</u>
Medical Assistance	93.778
Child Day Care Cluster	Various 93.575, 93.596, 93.667, 93.558
TANF/Work First	93.558
Drinking Water State Revolving Fund	66.468
Chips - NC Health Choice	93.767

Dollar threshold used to distinguish between type A and type B programs:	<u>\$1,327,708</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

(Continued)

Schedule of Findings and Questioned Costs (Continued)
 Year Ended June 30, 2005

I - Summary of Independent Auditor's Results (Continued)

State Awards

Internal control over major State programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None Reported

Type of auditor's report issued on compliance for major State programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?	_____ Yes	_____ <u>X</u> No
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Identification of major State programs:

<u>Program Name</u>	<u>Grant Number</u>
Special Assistance	N/A

II. Financial Statement Findings

Finding 05-1

Condition: Tax collections software allows a user to back date transactions and eliminate transactions after they have been posted to tax collection system.

Effect: Increased potential for misappropriation of assets.

Cause: Lack on controls within ACS tax software.

Recommendation: Immediate changes to ACS software preventing users to modify system or collection date and deletions of transactions.

Management Response: Management agrees with finding.

(Continued)

Carteret County, North Carolina

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

III - Federal Award Findings and Questioned Costs

None reported.

IV - State Award Findings and Questioned Costs

None reported.

Carteret County, North Carolina

Corrective Action Plan
Year Ended June 30, 2005

Finding 05-1:

Name of Contact Person: Carl Tilghman

Correction Action: The Supervisor of Collections has monitored the sequential list of receipts each day since this was brought to our attention in order to make sure that there were not any missing transactions. This will continue to take place until ACS can modify programming to prohibit deleted receipts.

ACS was notified about the lack of controls in place and the following corrective actions are to be taken:

1. Any correction now has to be done by a correction entry which would show the original transaction and the corrected transaction on the permanent records of the ACS system. Until this programming change has been fully implemented, the Collections Supervisor continues to monitor the sequential list of receipts on a daily basis to insure that none have been deleted.
2. Any past dated transactions can be done by the Supervisor of Collections only with her special password. Front line collections personnel are not allowed to do past dated transactions.
3. Each user now has an individual password that has to be entered with each transaction in order to complete the transaction. This will prevent someone other than the authorized user to enter any transaction in the user's station.
4. ACS has advised that as of November 29, 2005, the corrective actions will be fully implemented by December 10, 2005. In the mean time, the Collections Supervisor only is authorized to make past dated transactions and deleted entries with full written documentation. Additionally, each user is monitored daily to insure compliance.

Proposed Completion Date: December 10, 2005

Carteret County, North Carolina

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

No prior audit findings.

Carteret County, North Carolina

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
Federal Assistance					
US Department of Agriculture:					
Passed through NC Department of Agriculture: Administered by County Finance Department Soil and water conservation	10.550		\$ 16,420	\$ -	\$ 60,753
Passed through NC Department of Health and Human Services: Division of Women and Children: Administered by County Health Department: Special Supplemental Nutrition Program for Women, Infants and Children	10.557		166,152	-	54,486
Benefit Payments - noncash	10.557		822,635	-	-
			<u>988,787</u>	<u>-</u>	<u>54,486</u>
Passed through NC Department of Health and Human Services: Division of Social Services: Administered by County Department of Social Services: State Administrative Matching Grants for the Food Stamp Program Food Stamp Cluster: Food Stamp Benefit Payments - noncash	10.551		3,391,759	-	-
Food Stamp Admin	10.561		206,035	-	206,035
Food Stamp E&T & Depend Care	10.561		1,375	-	1,375
Food Stamp Fraud Admin	10.561		19,518	-	19,518
			<u>3,618,687</u>	<u>-</u>	<u>226,928</u>
Total US Department of Agriculture			<u>4,623,894</u>	<u>-</u>	<u>342,167</u>
US Department of Commerce:					
Passed through NC Department of Environment & Natural Resources Division of Water Quality Coastal Zone Management Awards-Minor Permit/County Aid	11.419		4,275	-	-
Coastal Zone Management Awards-Land Plans	11.419		7,500	-	-
			<u>11,775</u>	<u>-</u>	<u>-</u>
US Department of Housing and Urban Development:					
Passed through NC Department of Commerce: Administered by the Carteret County Planning: Community Development Block Grant	14.228	03-C-1122	33,070	-	-
Community Development Block Grant	14.228	01-C-0587	247,081	-	-
			<u>280,151</u>	<u>-</u>	<u>-</u>
US Department of Interior:					
Direct Program: Administered by County Finance Department: National Forest, Public Schools	15.225		94,746	-	-
US Department of Labor:					
Passed through NC Department of Health and Human Services NC Division of Aging and Adult Services: Passed through Eastern Carolina Council of Governments Administered by Senior Center Department Senior Community Service Employment Program Title V	17.235		43,603	-	4,845

(Continued)

Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
US Department of Transportation:					
Passed through NC Department of Transportation: Administered by County CCATS Department: Rural Operating Assistance Including Elderly and Disabled: Transportation Assistance, Work First, and Rural General Public Program					
	20.509		\$ 54,815	\$ 43,194	\$ 25,148
US Environmental Protection Agency:					
Passed through NC Department of Natural Resources: Drinking Water State Revolving Fund					
	66.468	H-LRX-F-02-0906	2,421,727	-	-
US Department of Health and Human Services:					
Passed through NC Department of Health and Human Services: NC Division of Aging and Adult Services, Eastern Carolina Council - Aging Cluster:					
Title III D	93.043		7,082	416	833
HCCBG In-Home Support Services	93.044		45,561	2,680	5,360
HCCBG - Access	93.044		29,463	1,733	3,466
HCCBG Congregate Meals	93.045		14,554	856	1,712
HCCBG Home Delivered Meals	93.045		17,509	1,030	2,060
HCCBG In-Home Support Services	93.667		18,573	531	2,123
			<u>132,742</u>	<u>7,246</u>	<u>15,554</u>
Passed through NC Dept. of Health and Human Services: NC Division of Aging and Adult Services, Eastern Carolina Council: NSIP-Nutrition (USDA Title C1, C2)					
	93.053		9,205	-	-
Passed through NC Department of Health and Human Services: Division of Social Services: Administered by Carteret County Department of Social Services:					
TANF Benefit Payments	93.558		372,186	7	51
Work First Administration	93.558		109,001	-	61,384
TANF Domestic Violence	93.558		10,802	-	-
TANF Up	93.558		29,179	-	-
Work First Service	93.558		738,834	-	514,810
AFDC Payments	93.560		(728)	(200)	(200)
AFDC Unemployed Parents Assistance	93.560		(118)	(32)	(32)
			<u>1,259,156</u>	<u>(225)</u>	<u>576,013</u>
Passed through NC Department of Health and Human Services: Division of Social Services: Administered by Carteret County Department of Social Services CCDF					
	93.596		71,963	-	-
Passed through NC Department of Health and Human Services: Administered by Carteret County Department of Social Services: Low Income Home Energy Assistance:					
Benefit payments	93.568		68,827	-	-
Administration	93.568		9,952	-	-
Crisis Intervention payments	93.568		58,034	-	-
			<u>136,813</u>	<u>-</u>	<u>-</u>

(Continued)

Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
Passed through NC Department of Health and Human Services:					
Administered by Carteret County Department of Social Services:					
Subsidized Child Care Cluster:					
Child Care & Development Fund-Discretionary	93.575		\$ 689,340	\$ -	\$ -
Child Care & Development Fund-Mandatory	93.596		285,373	-	-
Child Care & Development Fund-Match	93.596		77,472	44,524	-
SSBG	93.667		44,891	-	-
Temporary Assistance for Needy Families	93.558		180,678	-	-
State Appropriations			-	209,267	-
TANF- MOE			-	208,014	-
			<u>1,277,754</u>	<u>461,805</u>	<u>-</u>
Passed through NC Department of Health and Human Services:					
Division of Social Services:					
Administered by County Department of Social Services:					
Child Welfare Services:					
Permanency Planning:					
Regular	93.645		14,772	4,924	-
Special	93.645		4,155	-	1,385
			<u>18,927</u>	<u>4,924</u>	<u>1,385</u>
Foster Care and Adoption Cluster:					
Title IV-E Foster Care:					
IV E CPS	93.658		131,950	34,708	97,241
IV-E Optional	93.658		180,845	-	180,845
Foster Care in excess	93.658		56,984	-	32,874
Foster Care payments	93.658		138,700	39,929	39,929
IV-E Administration	93.658		1,253	(201)	1,052
Title IV-E adoption subsidy	93.659		135,039	39,633	39,633
			<u>644,771</u>	<u>114,069</u>	<u>391,574</u>
Passed through NC Department of Health and Human Services:					
Administered by County Department of Social Services:					
Social Services Block Grant:					
Family Planning:					
In-home Services	93.667		2,188	-	313
In-home Services over 60	93.667		22,561	-	3,223
In-home Services - SSBG	93.667		159,584	16,926	58,837
			<u>184,333</u>	<u>16,926</u>	<u>62,373</u>
Passed through NC Department of Health and Human Services:					
Administered by County Department of Social Services:					
Links	93.674		1,267	317	-
Passed through NC Department of Health and Human Services:					
Administered by County Department of Social Services:					
NC Health Choice	93.767		61,744	2,874	18,394

(Continued)

Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
Passed through NC Department of Health and Human Services:					
Division of Medical Assistance:					
Medical Assistance:					
Expansion	93.778		\$ 10,750	\$ 10,750	\$ -
ADT CR HM CS Mgt/Spec	93.778		35,166	20,608	14,558
Benefit payments	93.778		31,711,750	14,981,369	2,579,595
Administration	93.778		596,407	-	596,407
Transportation Service	93.778		20,857	10,242	1,808
Transportation Administration	93.778		13,351	-	13,351
			<u>32,388,281</u>	<u>15,022,969</u>	<u>3,205,719</u>
Passed through NC Department of Health and Human Services:					
Division of Public Health:					
HHS-CDC-Immunization					
Immunization Program/Aid to County Funding	93.268		14,074	-	-
Bioterrorism Grant	93.283		57,270	-	-
Rape Prevention	93.136		17,557	-	-
Rape Prevention Health Block Grant	93.991		2,173	-	-
Social Services Block Grant	93.667		9,916	-	-
Coop Agreement for Breast & Cervical Cancer	93.919		13,940	-	24,322
Statewide Health Promotion Program	93.991		42,735	-	27,830
Maternal & Child Health Services Block Grant	93.994		233,063	-	197,526
			<u>390,728</u>	<u>-</u>	<u>249,678</u>
Passed through NC Department of Health and Human Services:					
Division of Social Services:					
Administered by County Department of Social Services:					
Adoption/Foster Care	93.XXX		22,458	-	-
Passed through NC Department of Health and Human Services:					
Division of Aging and Adult Services:					
Passed through Eastern Carolina Council of Government					
Administered by the County Department of Social Services					
In-house Services 90% State Funds:					
Senior Center :					
Senior Center Development	93.XXX	NC-15	5,912	-	657
Total US Department of Health and Human Services			<u>36,606,054</u>	<u>15,630,905</u>	<u>4,521,347</u>
US Dept of Homeland Security, Office for Domestic Preparedness:					
Passed through NC Department of Crime Control and Public Safety,					
Division of Emergency Management					
Homeland Security Grant	97.004		109,248	-	-
Homeland Security Grant CERT	97.004		4,439	-	-
Homeland Security Grant	97.007		6,484	-	-
			<u>120,171</u>	<u>-</u>	<u>-</u>
State Assistance					
NC Department of Health and Human Services:					
Administered by County Finance Department:					
Services for Court Referrals					
Easer Seals- UCP			-	70,308	-
Juvenile Restitution Fund			-	49,080	-
Juvenile Crime Prevention			-	13,585	-
Teen Court			-	43,538	-
			<u>-</u>	<u>106,203</u>	<u>-</u>

Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
Division of Social Services:					
Administered by County Department of Social Services:					
State/County Special Assistance Benefit payments			\$ -	\$ 332,383	\$ 332,383
Energy Assistance, Private Grants			-	11,818	-
County Funded Programs			-	-	312,744
Non-Allocating County Cost			-	-	196,870
SC/ SA Administration			-	-	26,264
Aid to Counties			-	35,411	-
TANF / AFDC Program Integrity			-	2,210	-
CWS Adopt Subsidy & Vendor			-	92,240	28,432
Foster Care At Risk Maximization			-	7,389	4,229
State Foster Home			-	57,590	57,590
			-	539,041	958,512
Division of Aging and Adult Services:					
Passed through Eastern Carolina Council of Government					
Administered by the County Department of Social Services					
In-house Services 90% State Funds:					
Senior Center :					
HCCBG - Access			-	48,764	5,418
HCCBG - In Home Support			-	92,195	10,243
HCCBG - In Home Support			-	2,076	231
HCCBG Congregate Meals			-	17,648	1,961
HCCBG - Home Delivered Meals			-	14,915	1,657
Operation Fan		NC-15	-	490	-
			-	176,088	19,510
Division of Public Health:					
Administered by County Health Department:					
AIDS			-	500	-
Communicable Disease			-	1,756	-
Environmental Health			-	27,830	837,769
General			-	17,139	-
Nutrition Intervention			-	6,594	-
Risk Reduction/ Health Promotion			-	10,768	-
TB Medical Services			-	1,529	-
Tuberculosis			-	10,964	64,412
			-	77,080	902,181
Division of Child Development:					
Passed through Carteret County Partnership for Children					
Smart Start			-	32,337	-
Total NC Department of Health and Human Services			-	930,749	1,880,203

(Continued)

Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
NC Department of Environment and Natural Resources:					
Natural Resources Division:					
Passed through County Finance Office:					
White Goods Disposal			\$ -	\$ 29,234	\$ -
Scrap Tire Disposal			-	122,064	-
			-	151,298	-
Division of Water Quality:					
Soil and Water Conservation Administration			-	4,000	-
Environmental Health Serv		4751	-	6,000	-
Environmental Health Food/Lodging Fee Collected		4752	-	10,013	-
Environmental Health Public Health Pest Management		T05079	-	21,781	-
ENC/DEH Environment Admin		4751	-	458	-
Soil and Water Conservation Administration Agricultural Cost Share			-	16,420	-
Waste Management Scrap Tire Fund			-	48,497	-
			-	107,169	-
Total NC Department of Environment and Natural Resources			-	258,467	-
NC Department of Corrections:					
Administered by the County Finance Office:					
Criminal Justice Partnership Program			-	67,693	-
NC Department of Administration:					
Division of Veterans Affairs:					
Administered by County Veterans Services:					
Veterans Services			-	2,000	174,337
State Board of Elections					
Administered by Elections Services:					
Maintenance Grant			-	2,258	-
HAVA Accessibility grant			-	1,194	146
Other:					
Counseling Sexual Assault/ Rape Crisis		016-1-04-021-AV-147	-	39,479	9,870
Sexual Assault Grant Rape Crisis			-	15,530	3,883
Domestic Violence			-	50,000	7,500
Marriage License			-	12,000	-
ESGP			-	6,581	6,581
Carolinas House		016-04-B10-AV-264	-	-	7,715
Total NC Department of Administration			-	129,042	210,032

(Continued)

Schedule of Expenditures of Federal and State Awards (Continued)
 Year Ended June 30, 2005

	CFDA Number	Grantor's Number	Expenditures		
			Federal	State	Local
NC Department of Public Instruction:					
Public School Bond Fund					
Administered by the County Finance Department					
Public School Building Capital Fund			\$ -	\$ 350,000	\$ 1,108,000
NC Department of Transportation					
DOT Transportation Coordinator Grant		DOT-16CL	-	75,315	13,291
NC Health & Wellness Trust Fund					
Administered by Carteret County Aging Department					
Prescription Asst./ Medical Management		536401007	-	29,576	-
NC Department of Environment and Natural Resources					
Division of Water Resources					
Administered by Carteret County Soil Conservation					
Newport River Navigation Project			-	52,000	13,000
Total Federal Expenditures			<u>\$ 44,256,936</u>		
Total State Expenditures				<u>\$ 17,566,941</u>	
Total Local Expenditures					<u>\$ 8,118,033</u>

See Notes to Schedule of Federal and State Awards.

Carteret County, North Carolina

Notes to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2005

Note 1. General

The accompanying schedule of expenditures of federal and state awards represents only the activity of all federal and State financial grant activity of Carteret County, North Carolina, primary government. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act.

Note 2. Basis of Accounting

The accompanying schedule of expenditures of federal and state awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the County's basic financial statements, except for "benefit payments" made by the State of North Carolina directly to eligible program beneficiaries and the value of food stamps and WIC vouchers distributed, which are not included as expenditures in the fund financial statements, are included herein.

Note 3. Relationship to Fund Financial Statements

All federal and State financial award programs (other than direct benefit payments - see Note 2) are accounted for in the County's governmental funds.

Note 4. Program Clusters

The following are clustered by the NC Department of Health and Human Services and are treated separately for state audit requirement purposes: Subsidized Child Care, Foster Care and Aging.

Note 5. Loans Outstanding

The County has outstanding loan balances from federal and State funding sources that will not be required to be presented within the schedule of expenditures of federal and State awards in future years because there are no continuing requirements beyond the repayment of the loan balances in accordance with loan agreement provisions. The loan funds are presented in the schedule in the year of their expenditure. The outstanding balance of the Drinking Water State Revolving Fund at June 30, 2005 was \$2,421,727.