

Town of Beaufort

FINANCIAL STATEMENTS

June 30, 2014



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June 30, 2014**

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and
Board of Commissioners
Town of Beaufort, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of June 30, 2014, and the respective changes in financial position, and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Fire District Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officer's Special Separation Allowance's and the Other Postemployment Benefit Schedules of Funding Progress and Schedules of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Beaufort, North Carolina. The individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or

to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us.


In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of the Town of Beaufort, 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 the 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* in considering Town of Beaufort's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

New Bern, North Carolina
November 12, 2014



Town of Beaufort Management Discussion and Analysis For the Year Ended June 30, 2014

As management of the Town of Beaufort, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2014. We encourage readers to use the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

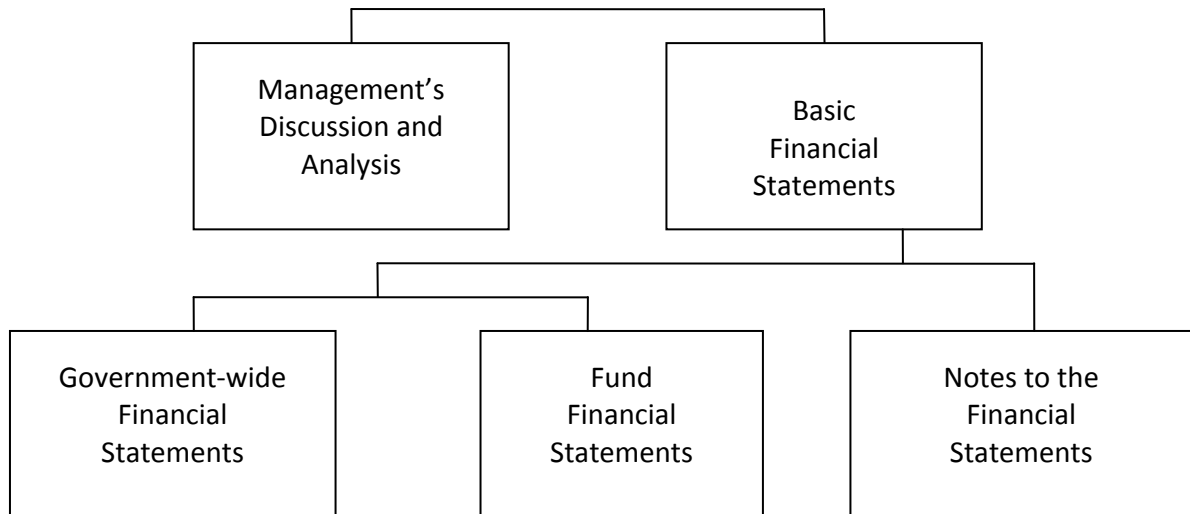
- The assets of the Town of Beaufort exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$24,962,394 (*net position*). This amount was comprised of net position in the governmental funds of \$5,986,031 and \$18,976,363 in business-type funds.
- The government's total net position increased by \$1,163,070, which consisted of an increase of governmental funds of \$769,282 and an increase in business-type funds of \$393,788.
- As of the close of the current fiscal year, the Town of Beaufort's governmental funds reported combined ending fund balances of \$2,913,257, an increase of \$201,153 over the prior year. Approximately 63% of this total amount, or \$1,828,165, is available for spending at the government's discretion.
- Long-term debt in the governmental funds decreased by \$227,730 due to principal reductions. Long-term debt in the enterprise funds decreased by a net amount of \$1,066,083 due primarily to a combination of additional loans of \$171,543 for water infrastructure projects and principal payments of \$1,237,626.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by North Carolina General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories; governmental activities and business-type activities. The governmental activities include most of the Town's basic services such as public safety, trash and

Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2014

recycle pickup, local streets and public property, parks and recreation, and general administration. Property taxes, federal and state shared revenues and grants finance most of these activities. The business-type activities are the utility services that the Town charges customers' user fees to provide. These include the water and sewer services provided by the Town of Beaufort.

The government-wide financial information is presented in Exhibits 1 and 2 of this report.

Fund Financial Statements

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

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

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

Proprietary Funds – The Town of Beaufort has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Beaufort uses enterprise funds to account for its water and sewer operations. These funds are the

Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2014

same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes begin on page 21.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Beaufort’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 44 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

Town of Beaufort's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 2,607,805	\$ 2,589,018	\$ 2,625,322	\$ 2,956,882	\$ 5,233,127	\$ 5,545,900
Restricted assets	588,444	874,091	2,111,548	2,041,271	2,699,992	2,915,362
Capital assets	4,824,134	4,474,519	31,490,637	32,136,199	36,314,771	36,610,718
Total assets	8,020,383	7,937,628	36,227,507	37,134,352	44,247,890	45,071,980
Current liabilities	520,551	1,009,480	1,474,033	1,717,518	1,994,584	2,726,998
Long-term liabilities	1,513,114	1,705,415	15,777,111	16,834,259	17,290,225	18,539,674
Deferred inflows of resources	687	5,984	-	-	687	5,984
Total liabilities and deferred inflows						
of resources	2,034,352	2,720,879	17,251,144	18,551,777	19,285,496	21,272,656
Net investment in capital assets	3,152,681	2,575,335	14,539,996	14,119,475	17,692,677	16,694,810
Restricted net assets	1,031,368	1,323,528	-	-	1,031,368	1,323,528
Unrestricted net assets	1,801,982	1,317,886	4,436,367	4,463,100	6,238,349	5,780,986
Total net position	\$ 5,986,031	\$ 5,216,749	\$ 18,976,363	\$ 18,582,575	\$ 24,962,394	\$ 23,799,324

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The assets of the Town of Beaufort exceeded liabilities and deferred inflows by \$24,962,394 as of June 30, 2014. The Town’s net position increased by \$1,163,070 for the fiscal year ended June 30, 2014.

However, the largest portion 71% or \$17,692,677, reflects the Town’s net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Beaufort uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town’s net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2014**

Of the Town of Beaufort's net position at June 30, 2014, \$1,031,368, or 4%, represents resources that are subject to external restrictions on how they may be used. The unrestricted balance at year end was \$6,238,350.

Town of Beaufort's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 394,256	\$ 392,890	\$ 3,040,433	\$ 2,987,871	\$ 3,434,689	\$ 3,380,761
Operating grants	123,547	135,971	-	-	123,547	135,971
Capital grants	-	311,748	40,000	-	40,000	311,748
General revenues:					-	-
Property taxes	2,742,012	2,705,957	-	-	2,742,012	2,705,957
Other taxes	1,034,761	918,110	-	-	1,034,761	918,110
Other revenues	1,203,867	662,251	135,559	111,514	1,339,426	773,765
Total revenues	5,498,443	5,126,927	3,215,992	3,099,385	8,714,435	8,226,312
Expenses:						
General government	750,771	1,174,201	-	-	750,771	1,174,201
Public safety	2,510,459	2,318,209	-	-	2,510,459	2,318,209
Transportation	797,730	748,858	-	-	797,730	748,858
Environmental protection	297,578	328,897	-	-	297,578	328,897
Cultural and recreation	319,009	39,265	-	-	319,009	39,265
Interest on long-term debt	53,614	48,749	-	-	53,614	48,749
Water and sewer	-	-	2,822,204	2,925,523	2,822,204	2,925,523
Total expenses	4,729,161	4,658,179	2,822,204	2,925,523	7,551,365	7,583,702
Increase in net position before transfers	769,282	468,748	393,788	173,862	1,163,070	642,610
Transfers	-	15,226	-	(15,226)	-	-
Change in net position	769,282	483,974	393,788	158,636	1,163,070	642,610
Prior period adjustment	-	(109,250)	-	-	-	(109,250)
Net position, July 1	5,216,749	4,842,025	18,582,575	18,423,939	23,799,324	23,265,964
Net position, June 30	\$ 5,986,031	\$ 5,216,749	\$ 18,976,363	\$ 18,582,575	\$ 24,962,394	\$ 23,799,324

Governmental activities. Governmental activities resulted in an increase of the Town's net position by \$769,282, a combined result of decreased spending levels, decreased staffing levels, improved tax collection rates, and the receipt of \$903,975 in funds from NCDOT for the purchase of Town assets and an amendment to a pre-annexation agreement. Town management continues to monitor spending in an effort to keep increases modest.

Business-type activities: Business-type activities increased the Town's net position by \$393,788.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Beaufort's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements.

The General Fund is the chief operating fund of the Town of Beaufort. At the end of the current fiscal year, total fund balance of the General Fund was \$2,834,529, of which \$1,828,165 was unassigned and available for use by the Board of Commissioners. This unreserved amount represents 43% of total General Fund expenditures for the year.

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

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year amounted to \$4,436,367.

Capital Asset and Debt Administration

Capital assets. The Town of Beaufort's investment in capital assets for its governmental and business-type activities as of June 30, 2014, totaled \$36,314,771 (net of accumulated depreciation). These assets include land, buildings, roads and sidewalks, machinery and equipment, park facilities, vehicles, water and sewer operating facilities, and related infrastructure. More information about the Town's capital assets is provided in Notes 1 and 3.

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2014**

**Town of Beaufort's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,019,550	\$ 1,461,005	\$ 1,073,691	\$ 1,063,615	\$ 3,093,241	\$ 2,524,620
Construction in progress	-	206,144	-	769,495	-	975,639
Equipment	120,261	156,860	117,669	134,108	237,930	290,968
Vehicles	606,864	762,390	44,750	62,309	651,614	824,699
Buildings and improvements	1,451,698	977,019	202,246	230,740	1,653,944	1,207,759
Infrastructure	625,761	911,101	30,052,281	29,875,932	30,678,042	30,787,033
Total assets	\$ 4,824,134	\$ 4,474,519	\$ 31,490,637	\$ 32,136,199	\$ 36,314,771	\$ 36,610,718

Long-term Debt. Following is a summary of outstanding long-term obligations as of June 30, 2014 for the Town of Beaufort. General obligation bonds are debt backed by the full faith and credit of the Town. More information about long-term debt is presented in Notes 1 and 3.

Town of Beaufort's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Installment loans	\$ 1,671,454	\$ 1,899,184	\$ 16,950,641	\$ 18,016,724	\$ 18,622,095	\$ 19,915,908

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Beaufort is \$45,511,383.

Economic Factors and Next Year's Budgets and Rates

Moving forward into FY 2015, the Town's General Fund budget is largely flat. A property tax collection rate of 96.9% was utilized in accordance with the General Statutes. The league of municipalities' projects only modest growth with these estimates reflected in the revenue projections for FY15. While at the beginning of FY15, no fund reserves were anticipated to be needed, Hurricane Arthur over July 4th weekend resulted in approximately \$45,000 of previously unappropriated expenses, so it is possible that reserves will be required. The Town continues to focus on improving the efficiency of service delivery, considering selective outsourcing as a possible alternative.

Beaufort's summer 2014 tourist season was strong, further indicating that economic recovery continues. There was an increase in overall county spending levels and we expect this trend to continue in FY15 yielding an anticipated increase in local option sales tax.

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2014**

There are several large development projects that have seen little movement since the recession. However, FY14 did see the sale of one such development which perhaps indicates that building may commence in FY15. While this will have little effect on FY15 budget, apart from the collection of impact fees, it does hold promise for FY16 revenue projections. Additionally, several new multi-family residential projects began, with positive implications for both the General and Utility Funds.

FY14 also saw the beginning of the new Highway 70 bridge relocation project, scheduled for completion in late 2017. This project will most certainly impact property values throughout the project area, though the extent to which remains uncertain. There is concern, for example, that commercial businesses along the existing highway will suffer as a result of the decreased traffic counts once the new road opens. However, the land adjacent to the new corridor does provide opportunities for commercial development. Staff will continue to closely monitor both residential and commercial development activity. Additionally, new property valuation numbers will be released by the County in January 2015.

The Utility Fund is improving slowly as debt obligations recede ever so slightly each year. The Town monitors the fund closely and remains hopeful that new development will bring additional water and sewer users online and rate increases can be avoided. As drainage and water quality remain a large concern, the Town continues to contemplate a Stormwater Utility; which this didn't materialize in the FY15 budget, it will likely be proposed again during the FY16 budget cycle.

There are several key changes happening with respect to the Beaufort Fire Department. The County has realigned its fire districts, increasing the size of Beaufort's effective July 1, 2014. The Town will receive additional funds from the County and the Town will be paying close attention to the expenses incurred as a result of this realignment. Additionally, the Board of Commissioners approved the purchase of nearly an acre and half of land to construct a new fire station. This project is likely to move forward significantly during FY15, with construction anticipated to be complete in fall of 2017.

Requests for Information

This report is designed to provide an overview of the Town of Beaufort finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Finance Officer, P.O. Box 390, Beaufort, NC 28516, (252) 728-2141.

Town of Beaufort
Statement of Net Position
June 30, 2014
Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,036,230	\$ 2,320,097	\$ 4,356,327
Taxes receivable (net)	128,651	-	128,651
Accounts receivable (net)	442,924	305,225	748,149
Restricted cash and cash equivalents	588,444	2,111,548	2,699,992
Total current assets	3,196,249	4,736,870	7,933,119
Capital assets:			
Land	2,019,550	1,073,691	3,093,241
Capital assets, net of depreciation	2,804,584	30,416,946	33,221,530
Total capital assets	4,824,134	31,490,637	36,314,771
Total assets	\$ 8,020,383	\$ 36,227,507	\$ 44,247,890
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 153,654	\$ 104,109	\$ 257,763
Customer deposits	-	154,800	154,800
Accrued vacation payable	168,576	31,678	200,254
Current portion of long-term liabilities	198,321	1,183,446	1,381,767
Total current liabilities	520,551	1,474,033	1,994,584
Long-term liabilities:			
Due in more than one year	1,513,114	15,777,111	17,290,225
Total liabilities	2,033,665	17,251,144	19,284,809
DEFERRED INFLOWS OF RESOURCES			
Prepaid taxes	687	-	687
NET POSITION			
Net investment in capital assets	3,152,681	14,539,996	17,692,677
Restricted for:			
Stabilization by State Statute	442,924	-	442,924
Streets	588,444	-	588,444
Unrestricted	1,801,982	4,436,367	6,238,349
Total net position	\$ 5,986,031	\$ 18,976,363	\$ 24,962,394

The accompanying footnotes are an integral part of these financial statements.

Functions/ Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 750,771	\$ -	\$ -	\$ -
Public safety	2,510,459	89,144	1,424	-
Transportation	797,730	-	122,123	-
Environmental protection	297,578	305,112	-	-
Cultural and recreation	319,009	-	-	-
Interest on long-term debt	53,614	-	-	-
Total governmental activities	4,729,161	394,256	123,547	-
Business-type activities:				
Utility fund	2,822,204	3,040,433	-	40,000
Total primary government	\$ 7,551,365	\$ 3,434,689	\$ 123,547	\$ 40,000

General revenues:

Taxes:

Property taxes, levied for general purposes

Other taxes

Grants and contributions not restricted

Investment earnings

Miscellaneous

Total general revenues

Change in net position

Net position - beginning

Net position - ending

Town of Beaufort
Statement of Activities
For the Year Ended June 30, 2014
Exhibit 2

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental	Business-type		Total
Activities	Activities		
\$ (750,771)	\$ -		\$ (750,771)
(2,419,891)	-		(2,419,891)
(675,607)	-		(675,607)
7,534	-		7,534
(319,009)	-		(319,009)
(53,614)	-		(53,614)
(4,211,358)	-		(4,211,358)
-	258,229		258,229
(4,211,358)	258,229		(3,953,129)
2,742,012	-		2,742,012
1,034,761	-		1,034,761
303,370	-		303,370
1,200	2,010		3,210
899,297	133,549		1,032,846
4,980,640	135,559		5,116,199
769,282	393,788		1,163,070
5,216,749	18,582,575		23,799,324
\$ 5,986,031	\$ 18,976,363		\$ 24,962,394

The accompanying footnotes are an integral part of these financial statements.

Town of Beaufort
Balance Sheet- Governmental Funds
June 30, 2014
Exhibit 3

	Major Funds				Total Governmental Funds
	General	Fire District Fund	Hwy 70 Utility Relocation	Fire Substation Fund	
ASSETS					
Cash and cash equivalents	\$ 1,960,736	\$ 75,494	\$ -	\$ -	\$ 2,036,230
Restricted cash	588,444	-	-	-	588,444
Ad valorem taxes receivable (net)	128,651	-	-	-	128,651
Accounts receivable	417,920	25,004	-	-	442,924
Total assets	\$ 3,095,751	\$ 100,498	\$ -	\$ -	\$ 3,196,249
LIABILITIES					
Accounts payable and accrued liabilities	\$ 131,884	\$ 21,770	\$ -	\$ -	\$ 153,654
DEFERRED INFLOWS OF RESOURCES					
Property tax receivable	128,651	-	-	-	128,651
Prepaid taxes	687	-	-	-	687
Total deferred inflows of resources	129,338	-	-	-	129,338
FUND BALANCES					
Restricted					
Stabilization of State Statute	417,920	25,004	-	-	442,924
Streets	588,444	-	-	-	588,444
Assigned					
Public safety	-	53,724	-	-	53,724
Unassigned	1,828,165	-	-	-	1,828,165
Total fund balances	\$ 2,834,529	\$ 78,728	\$ -	\$ -	\$ 2,913,257

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances - governmental funds	\$ 2,913,257
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,824,134
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	128,651
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.	(1,880,011)
Net position of governmental funds	\$ 5,986,031

The accompanying footnotes are an integral part of these financial statements.

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
June 30, 2014
Exhibit 4

	Major Funds				Total Governmental Funds
	General	Fire District Fund	Hwy 70 Utility Relocation	Fire Substation Fund	
REVENUES					
Ad valorem taxes	\$ 2,435,201	\$ 318,975	\$ -	\$ -	\$ 2,754,176
Other taxes and licenses	944,761	90,000	-	-	1,034,761
Unrestricted intergovernmental	303,370	-	-	-	303,370
Restricted intergovernmental	122,473	1,074	-	-	123,547
Permits and fees	394,256	-	-	-	394,256
Sales and services	785,414	-	-	-	785,414
Investment earnings	1,139	61	-	-	1,200
Miscellaneous	43,458	17,096	-	-	60,554
Total revenues	5,030,072	427,206	-	-	5,457,278
EXPENDITURES					
Current:					
General government	1,382,316	-	-	-	1,382,316
Public safety	1,342,533	1,028,698	-	316,106	2,687,337
Public works	727,602	-	-	-	727,602
Environmental protection	297,149	-	-	-	297,149
Cultural and recreation	288,236	-	-	-	288,236
Debt service					
Interest	43,219	10,395	-	-	53,614
Principal	127,597	100,134	-	-	227,731
Total expenditures	4,208,652	1,139,227	-	316,106	5,663,985
Excess (deficiency) of revenues over expenditures	821,420	(712,021)	-	(316,106)	(206,707)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	407,860	-	-	-	407,860
Transfers from other funds	47,287	795,364	-	257,789	1,100,440
Transfers to other funds	(943,175)	(109,978)	(47,287)	-	(1,100,440)
Total other financing sources (uses)	(488,028)	685,386	(47,287)	257,789	407,860
Net change in fund balance	333,392	(26,635)	(47,287)	(58,317)	201,153
Fund balances - beginning	2,501,137	105,363	47,287	58,317	2,712,104
Fund balances - ending	\$ 2,834,529	\$ 78,728	\$ -	\$ -	\$ 2,913,257

The accompanying footnotes are an integral part of these financial statements.

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
June 30, 2014
Exhibit 4

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities:

Net change in fund balances - governmental funds	\$	201,153
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized		977,239
Depreciation expense for governmental assets		(273,093)
Basis in assets sold		<u>(354,531)</u>
		349,615
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenue		(12,164)
<p>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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		227,730
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Other postemployment benefits		(6,019)
Compensated absences		<u>8,967</u>
		2,948
Total changes in net position of governmental activities	\$	<u><u>769,282</u></u>

The accompanying footnotes are an integral part of these financial statements.

General Fund

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 2,360,633	\$ 2,407,200	\$ 2,435,201	\$ 28,001
Other taxes and licenses	819,880	885,880	944,761	58,881
Unrestricted intergovernmental	292,682	304,333	303,370	(963)
Restricted intergovernmental	120,930	123,053	122,473	(580)
Permits and fees	379,100	392,400	394,256	1,856
Sales and services	268,080	778,080	785,414	7,334
Investment earnings	4,000	4,000	1,139	(2,861)
Miscellaneous	147,375	38,254	43,458	5,204
Total revenues	4,392,680	4,933,200	5,030,072	96,872
EXPENDITURES				
Current:				
General government	1,430,324	1,400,863	1,382,316	18,547
Public safety	1,323,749	1,380,297	1,342,533	37,764
Public works	811,865	774,209	727,602	46,607
Environmental protection	298,457	300,280	297,149	3,131
Cultural and recreation	298,457	293,300	288,236	5,064
Debt service				
Principal	127,597	127,597	127,597	-
Interest	42,367	43,219	43,219	-
Total expenditures	4,332,816	4,319,765	4,208,652	111,113
Revenues over (under) expenditures	59,864	613,435	821,420	207,985
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	32,000	24,384	407,860	383,476
Transfers from other funds	-	47,288	47,287	(1)
Transfers to other funds	(749,364)	(943,175)	(943,175)	-
Total other financing sources (uses)	(717,364)	(871,503)	(488,028)	383,475
Fund balance appropriated	657,500	258,068	-	(258,068)
Net change in fund balance	\$ -	\$ -	333,392	\$ 333,392
Fund balances - beginning			2,501,137	
Fund balance - ending			\$ 2,834,529	

Town of Beaufort

**Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund and Annually Budgeted Major Special Revenue Fund
For the Year Ended June 30, 2014
Exhibit 5**

Fire District Fund				
Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)	
\$ 322,000	\$ 322,000	\$ 318,975	\$	(3,025)
78,000	78,000	90,000		12,000
-	-	-		-
-	-	1,074		1,074
-	-	-		-
-	-	61		61
1,500	16,728	17,096		368
401,500	416,728	427,206		10,478
-	-	-		-
1,010,333	1,071,561	1,028,698		42,863
-	-	-		-
-	-	-		-
-	-	-		-
100,135	100,135	100,134		1
10,396	10,396	10,395		1
1,120,864	1,182,092	1,139,227		42,865
(719,364)	(765,364)	(712,021)		53,343
-	-	-		-
749,364	795,364	795,364		-
(30,000)	(109,978)	(109,978)		-
719,364	685,386	685,386		-
-	79,978	-		(79,978)
\$ -	\$ -	(26,635)	\$	(26,635)
		105,363		
		\$ 78,728		

The accompanying footnotes are an integral part of these financial statements.

Town of Beaufort
Statement of Fund Net Position
Proprietary Funds
June 30, 2014
Exhibit 6

Utility Fund

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,320,097
Accounts receivable (net)	305,225
Restricted cash and cash equivalents	2,111,548
Total current assets	4,736,870
Capital assets:	
Land	1,073,691
Capital assets, net of depreciation	30,416,946
Total capital assets	31,490,637
Total assets	\$ 36,227,507
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	\$ 104,109
Customer deposits	154,800
Accrued vacation payable	31,678
Current portion of long-term liabilities	1,183,446
Total current liabilities	1,474,033
Noncurrent liabilities	
Long-term debt	15,767,195
Other post-employment benefits	9,916
Total noncurrent liabilities	15,777,111
Total liabilities	17,251,144
NET POSITION	
Net investment in capital assets	14,539,996
Unrestricted	4,436,367
Total net position	\$ 18,976,363

The accompanying footnotes are an integral part of these financial statements.

Town of Beaufort
Statement of Revenues, Expenses and Changes
In Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2014
Exhibit 7

	Utility Fund
OPERATING REVENUES	
Charges for services	\$ 3,005,323
Tap fees	17,005
Connection fees	18,105
Total operating revenues	3,040,433
OPERATING EXPENSES	
Water treatment and distribution	470,054
Waste collection and treatment	1,036,449
Depreciation	919,265
Total operating expenses	2,425,768
Operating income (loss)	614,665
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	2,010
Impact fees	69,300
Other nonoperating revenues	56,749
Gain on sale of fixed assets	7,500
Interest on long-term debt	(396,436)
Total nonoperating revenues (expenses)	(260,877)
Income before contributions	353,788
Capital contributions	40,000
Change in net position	393,788
Total net position, beginning	18,582,575
Total net position, ending	\$ 18,976,363

The accompanying footnotes are an integral part of these financial statements.

Town of Beaufort
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2014
Exhibit 8

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,325,572
Cash paid for goods and services	(1,027,402)
Cash paid to or on behalf of employees	(718,027)
Customer deposits received	19,875
Customer deposits returned	(15,500)
<hr/>	
Net cash provided (used) by operating activities	1,584,518
<hr/>	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Impact fees	69,300
Acquisition of capital assets	(233,702)
Sale of capital assets	7,500
Installment notes issued	171,543
Principal paid on bonds	(1,237,626)
Interest paid on bonds	(396,436)
Other receipts	56,749
<hr/>	
Net cash provided (used) by capital and financing activities	(1,562,672)
<hr/>	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	2,010
<hr/>	
Net increase (decrease) in cash and cash equivalents	23,856
Balances, beginning of year	4,407,789
<hr/>	
Balances, ending of year	\$ 4,431,645
<hr/>	
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	614,665
Adjustments to reconcile income to cash provided by operations:	
Depreciation	919,265
(Increase) decrease in accounts receivable	285,138
Increase (decrease) in accounts payable	(245,506)
Increase (decrease) in accrued vacation	4,232
Increase (decrease) in customer deposits	5,219
Increase (decrease) in OPEB liability	1,505
<hr/>	
Total adjustments	969,853
<hr/>	
Net cash provided by operating activities	\$ 1,584,518
<hr/>	

The accompanying footnotes are an integral part of these financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Beaufort, North Carolina conform to generally accepted principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Beaufort is a municipal corporation that is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the Town only. The Town does not have a component unit.

B. Basis of Presentation

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation-Fund Accounting (continued)

The Town reports the following major governmental funds:

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

Fire District Fund – The Fire District Fund is a special revenue fund that is used to account for specific revenue sources that are required to be accounted for in another fund (other than expendable trust or major capital projects). The Town reports its Fire Department in the special revenue fund since the fire district is larger than the Town, and the department receives money from the county for a portion of the cost of operations.

Highway 70 Utility Relocation Fund – This capital project fund is used to account for grant funds that are restricted for a particular purpose.

Fire Substation Fund – This capital project fund is used to account for the construction of a new fire substation.

The Town does not have any non-major governmental funds.

The Town reports the following major enterprise funds:

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

C. Measurement Focus and Basis of Accounting

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

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 Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue, and Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Highway 70 Utility Relocation Capital Project Fund, Fire Substation Capital Project Fund and the Enterprise Capital Project Funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$25,000. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Equity

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and Super NOW accounts, money market accounts, and certificates of deposit.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Equity (continued)

1. Deposits and Investments (continued)

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

The impact fees collected for the water and sewer funds are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the funds were originally collected. Powell Bill Funds are also classified as restricted cash because it can only be expended for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2011.

5. Allowance 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.

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Equity (continued)

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$5,000. 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. General infrastructure assets acquired after July 1, 2003, consist of the road network and drainage system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Computer equipment	5-7
Vehicles	7-10
Equipment and fixtures	7-10
Buildings	25-40
Infrastructure	20-60

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet this criterion for this category – prepaid taxes and property taxes receivable.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Equity (continued)

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they incurred. Prepaid insurance costs are expensed over the life of the debt.

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

9. Compensated Absences

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities and Fund Equity (continued)

10. Net Position/Fund Balances (continued)

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of three classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Reserved for Stabilization by State Statute – portion of fund balance that is restricted by State Statute [G.S. 159-8(a)].

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue sources for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Assigned Fund Balance – the portion of fund balance that Town of Beaufort intends to use for specific purposes.

Public Safety – portion of fund balance that has been budgeted by the Board for public safety needs.

Unassigned Fund Balance – the portion of fund balance that has not been restricted, committed or assigned to specific purposes or other funds.

NOTE 2 DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized using the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2014, the Town's deposits had a carrying amount of \$2,228,060 and a bank balance of \$2,262,150. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2014, the Town's petty cash fund totaled \$400.

2. Investments

At June 30, 2014, the Town had \$4,827,859 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2014

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

A. Assets (continued)

2. Receivables - Allowance for Doubtful Accounts

General Fund:	
Taxes receivable	\$ 17,562
Accounts receivable	5,193
Total General Fund	22,755
Enterprise Fund:	
Water and sewer accounts receivable	59,237
Total	\$ 81,992

4. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Construction in Progress	\$ 206,144	\$ 316,106	\$ 522,250	\$ -
Land	1,461,005	558,545	-	2,019,550
Total capital assets not being depreciated	1,667,149	874,651	522,250	2,019,550
Capital assets being depreciated:				
Equipment and fixtures	744,879	-	-	744,879
Vehicles	2,499,092	-	83,387	2,415,705
Buildings and improvements	1,431,302	522,250	-	1,953,552
Infrastructure	1,119,852	102,588	464,451	757,989
Total capital assets being depreciated	5,795,125	624,838	547,838	5,872,125
Less accumulated depreciation for:				
Equipment and fixtures	588,019	36,599	-	624,618
Vehicles	1,736,702	155,526	83,387	1,808,841
Buildings and improvements	454,283	47,571	-	501,854
Infrastructure	208,751	33,397	109,920	132,228
Total accumulated depreciation	2,987,755	273,093	193,307	3,067,541
Total capital assets being depreciated, net	2,807,370			2,804,584
Governmental activities capital assets net	\$ 4,474,519			\$ 4,824,134

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2014

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

Depreciation expense was charged to the governmental functions as follows:

General government	\$	42,676
Public safety		130,337
Public works		69,307
Cultural and recreation		30,773
<hr/>		
Total depreciation expense	\$	273,093

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in Progress	\$ 769,495	\$ 196,752	\$ 966,247	\$ -
Land	1,063,615	10,076	-	1,073,691
<hr/>				
Total capital assets not being depreciated	1,833,110	206,828	966,247	1,073,691
<hr/>				
Capital assets being depreciated:				
Equipment and fixtures	635,477	36,950	49,747	622,680
Vehicles	271,611	-	-	271,611
Buildings and improvements	1,139,749	-	-	1,139,749
Plant and collection system	31,013,884	-	-	31,013,884
Plant and distribution system	3,860,037	996,171	-	4,856,208
<hr/>				
Total capital assets being depreciated	36,920,758	1,033,121	49,747	37,904,132
<hr/>				
Less accumulated depreciation for:				
Equipment and fixtures	501,369	53,389	49,747	505,011
Vehicles	209,302	17,559	-	226,861
Buildings and improvements	909,009	28,494	-	937,503
Plant & collection system	3,728,526	761,025	-	4,489,551
Plant and distribution system	1,269,463	58,797	-	1,328,260
<hr/>				
Total accumulated depreciation	6,617,669	919,264	49,747	7,487,186
<hr/>				
Total capital assets being depreciated, net	<u>30,303,089</u>			<u>30,416,946</u>
<hr/>				
Business-type activities capital assets net	<u>\$ 32,136,199</u>			<u>\$ 31,490,637</u>

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities

1. Pension Plan and Post-Employment Obligations

(a) Local Governmental Employees' Retirement System (continued)

Plan Description – The Town of Beaufort contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS 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, NC 27699-1410, or by calling (919) 981-5454.

Funding Policy – Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28% respectively, of annual covered payroll. The contribution requirements of members and the Town of Beaufort are established and may be amended by the NC General Assembly.

The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012, were \$324,559, \$314,281, and \$320,808, respectively. The contributions made by the Town equaled the required contributions for each year.

(b) Law Enforcement Officers' Special Separation Allowance

Plan Description – The Town of Beaufort administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% 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 law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>17</u>
Total	<u><u>17</u></u>

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(b) Law Enforcement Officers' Special Separation Allowance (continued)

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

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

Contributions

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

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment increases.

Annual Pension Cost and Net Pension Obligation

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

Annual required contribution	\$	25,506
Interest on net pension obligation		6,502
Adjustment to annual required contribution		(10,595)
<hr/>		
Annual pension cost		21,413
Contributions made		-
<hr/>		
Increase (decrease) in net pension obligation		21,413
Net pension obligation, beginning of year		130,047
<hr/>		
Net pension obligation, end of year	\$	151,460
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Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2014

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(b) Law Enforcement Officers' Special Separation Allowance (continued)

<u>For Year Ended</u> <u>June 30</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of Annual</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2014	\$ 21,413	0%	\$ 151,460
2013	\$ 23,244	0%	\$ 130,047
2012	\$ 21,321	0%	\$ 106,803

Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$219,206. The covered payroll (annual payroll of active employees covered by the plan) was \$625,485, and the ratio of the UAAL to the covered payroll was 35.05%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(c) Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description – The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasure and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. 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 – Article 12E of the G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town has elected to contribute to the Supplemental Retirement Income Plan for general employees as well as law enforcement officers. Contributions for the year ended June 30, 2014 were \$154,023 which consisted of \$133,382 from the Town and \$20,641 from the employees.

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(d) Firefighter’s and Rescue Squad Worker’s Pension Fund

Plan Description – The State of North Carolina contributes, on behalf of the Town of Beaufort, to the Firefighter’s and Rescue Squad Workers’ Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firefighter’s and Rescue Squad Workers’ Pension Fund 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 the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454.

Funding Policy – Plan members are required to contribute \$10 per month to the Fund. The state, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the fund. Contribution requirements of the plan members and the State of North Carolina are established and may be amended by the N.C. General Assembly.

(e) Other Postemployment Benefits (OPEB) – Healthcare Benefits

Plan Description – Under the terms of a Town resolution, the Town administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (System) and have at least twenty years of creditable service with the Town. The retiree pays the full cost of coverage for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Members of the Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>67</u>
Total	<u><u>67</u></u>

Funding Policy – The retiree pays the full cost of coverage for the healthcare benefits provided to qualified retirees under a Town resolution that can be amended by the Town Council. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(e) Other Postemployment Benefits (OPEB) – Healthcare Benefits (continued)

The current annual required contribution (ARC) rate is 0.29% of annual covered payroll. For the current year, the Town contributed \$0 or 0% of annual covered payroll. The Town obtained healthcare coverage through private insurers. The Town’s required contributions, under a Town resolution, for both employees not engaged in law enforcement and for law enforcement officers represented 0% of covered payroll. There were no contributions made by employees. The Town’s obligation to contribute to the Plan is established and may be amended by the Town Board.

Summary of Significant Accounting Policies – Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town’s annual OPEB cost for the year, the amount contributed to the plan, and changes in the Town’s net OPEB obligation for the healthcare benefits:

Annual required contribution	\$	7,461
Interest on net OPEB obligation		1,694
Adjustment to annual required contribution		(1,631)
Annual OPEB cost (expense)		7,524
Contributions made		-
Increase (decrease) in net OPEB obligation		7,524
Net OPEB obligation, beginning of year		42,373
Net OPEB obligation, end of year		\$ 49,897

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(e) Other Postemployment Benefits (OPEB) – Healthcare Benefits (continued)

The Town’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014 were as follows:

<u>For Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 7,524	0%	\$ 49,897
2013	\$ 7,523	0%	\$ 42,373
2012	\$ 10,509	0%	\$ 34,850

Funded Status and Funding Progress – As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and thus, unfunded actuarial accrued liability (UAAL) was \$68,147. The covered payroll (annual payroll of active employees covered by the plan) was \$2,505,607, and the ratio of the UAAL to the covered payroll was 2.7%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

In the December 31, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 8.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

2. Other Employment Benefits

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

3. Deferred Outflows and Inflows of Resources

Deferred inflows of resources at year-end is comprised of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Prepaid taxes (General Fund)	\$ -	\$ 687
Taxes receivable (General Fund), less penalties	<u>128,651</u>	<u>-</u>
Total	<u>\$ 128,651</u>	<u>\$ 687</u>

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$27,335,569, workers' compensation coverage up to \$1 million. The pools are reinsured through commercial companies for single occurrence claims against general liability, and auto liability in excess of \$1,000,000, and \$1,00,000 for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000.

The Town does carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area that State that has been mapped and designated an A area, (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP.

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

In accordance with G.S. 159-29, the Town's employees who have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are individually bonded for \$100,000 each. The remaining employees who have access to funds are bonded under a blanket bond for \$200,000.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2014, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

6. Long-Term Obligations (continued)

(a) Installment Purchase (continued)

In December 2005, the Town signed a promissory note to the North Carolina Clean Water Revolving loan for the Cedar Street Sanitary Sewer Rehabilitation Project. The agreement requires 20 annual payments of principal in the amount of \$30,115 each, plus 40 semi-annual payments of interest at 2.205% per annum.

In April 2006, the Town signed a promissory note to the North Carolina Clean Water Revolving loan for the Sewer Force Main Project. The loan requires annual principal payments of \$29,628 each, plus 40 semi-annual payments of interest at 2.265% per annum.

In September 2007, the Town signed a promissory note to the North Carolina Clean Water Revolving loan for the Waste Water Treatment Plant Project. The loan requires annual principal payments of \$277,766 each, plus 40 semi-annual payments of interest at 2.265% per annum.

In September 2008, the Town signed a promissory note to the North Carolina Clean Water Revolving Loan for the Well Project. The loan requires annual principal payments of \$50,560 each, plus 40 semi-annual payments of interest at 2.48% per annum.

In March 2008, the Town signed a promissory note to the North Carolina Clean Water Revolving loan for the Waste Water Treatment Plant Project. The loan requires annual principal payments of \$692,017 each, plus 40 semi-annual payments of interest at 2.1% per annum.

In February 2010, the Town entered into an installment loan agreement for the purchase of land. The agreement was refinanced in July 2011. The refinance agreement requires 6 semi-annual payments of \$57,438 each, including principal and interest at 2.92% per annum.

In June 2011, the Town entered into an installment loan agreement for the purchase and renovation of a new town hall. The agreement requires annual principal payments of \$100,000 each, plus 30 semi-annual payments of interest at 2.95% per annum.

In February 2012, the Town entered into an installment loan agreement for the purchase of a waste compactor truck. The agreement requires quarterly payments of \$7,535 each, including principal and interest at 2.62% per annum.

In October 2012, the Town entered into an installment loan agreement for the purchase of a pumper truck. The agreement requires annual payments of \$78,017 each, including principal and interest at 2.75% per annum.

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2014**

NOTE 2 **DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

6. Long-Term Obligations (continued)

In September 2011, the Town signed a promissory note to the North Carolina Clean Water Revolving loan for the Sycamore drive water project. The loan requires annual principal payments of \$46,750 each, plus 40 semi-annual payments of interest at 2.455% per annum.

The future minimum payments of the installment purchase as of June 30, 2014, including \$272,770 of interest in the governmental activities and \$2,983,866 of interest in business-type activities are as follows:

Year Ended June 30	Governmental		Business-type	
	Principal	Interest	Principal	Interest
2015	\$ 198,321	\$ 46,709	\$ 1,183,446	\$ 369,885
2016	200,996	41,085	1,126,835	344,498
2017	196,208	35,388	1,126,835	319,938
2018	175,929	30,113	1,126,835	295,377
2019	100,000	25,075	1,126,835	270,817
2020-2024	500,000	81,125	5,634,175	985,677
2025-2029	300,000	13,275	5,236,438	373,658
2030-2034	-	-	389,242	24,016
Total	\$ 1,671,454	\$ 272,770	\$ 16,950,641	\$ 2,983,866

At June 30, 2014, the Town of Beaufort had a legal debt margin of \$45,511,383.

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2014**

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

6. Long-Term Obligations (continued)

(b) Changes in Long-term Obligations

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchase	\$ 1,899,184	\$ -	\$ 227,730	\$ 1,671,454	\$ 198,321
Compensated absences	177,543	-	8,967	168,576	168,576
Other postemployment benefits	33,962	6,019	-	39,981	-
Governmental activity long-term liabilities	\$ 2,110,689	\$ 6,019	\$ 236,697	\$ 1,880,011	\$ 366,897
Business-type activities:					
Installment purchase	\$ 18,016,724	\$ 171,543	\$ 1,237,626	\$ 16,950,641	\$ 1,183,446
Compensated absences	27,446	4,232	-	31,678	31,678
Other postemployment benefits	8,411	1,505	-	9,916	-
Business-type long-term liabilities	\$ 18,052,581	\$ 177,280	\$ 1,237,626	\$ 16,992,235	\$ 1,215,124

7. Interfund Balances and Transfers

Transfers to/from other funds for the year ended June 30, 2014 were comprised of:

Transfer from General Fund to Fire District Fund for the Town's portion of Fire District expenditures	<u>\$ 795,364</u>
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NOTE 3 FUND BALANCE

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total Fund Balance - General Fund	\$ 2,834,529
Less:	
Stabilization by State Statute	(417,920)
Streets - Powell Bill	(588,444)
Remaining Fund Balance	\$ 1,828,165

NOTE 4 SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Federal and State Assisted Programs

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

Town of Beaufort
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
For the Year Ended June 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued (AAL)		Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll)	UAAAL as a % of Covered (c Payroll a/c)
		Projected Unit Credit (a)	Unit (b)				
12/31/2006	\$ -	\$ 70,381	\$ 70,381	\$ 70,381	0%	\$ 559,924	12.57%
12/31/2007	-	83,395	83,395	83,395	0%	578,743	14.41%
12/31/2008	-	101,474	101,474	101,474	0%	631,673	16.06%
12/31/2009	-	165,620	165,620	165,620	0%	683,977	24.21%
12/31/2010	-	160,774	160,774	160,774	0%	653,278	24.61%
12/31/2011	-	182,154	182,154	182,154	0%	662,670	27.49%
12/31/2012	-	192,049	192,049	192,049	0%	635,014	30.24%
12/31/2013	-	219,206	219,206	219,206	0%	625,485	35.05%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	\$ -	0%
2008	-	0%
2009	-	0%
2010	-	0%
2011	-	0%
2012	-	0%
2013	-	0%
2014	-	0%

**Town of Beaufort
Retiree Health Plan
Required Supplementary Information
For the Year Ended June 30, 2014**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued (AAL)		Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)	
		(a)	(b)				(b-a)	(b-a/c)
12/31/2012	\$ -	\$ 68,147	\$ 68,147	0%	\$ 2,505,607	2.72%		

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	\$ -	0%
2014	-	0%

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 2,420,826	
Penalties and interest		14,375	
Total	\$ 2,407,200	2,435,201	\$ 28,001
Other taxes and licenses			
Local option sales tax		833,185	
ABC net revenue		83,523	
Privilege licenses		28,053	
Total	885,880	944,761	58,881
Unrestricted intergovernmental			
Utility franchise tax		267,074	
Beer and wine tax		17,882	
Payments in lieu of tax		18,414	
Total	304,333	303,370	(963)
Restricted intergovernmental			
Other grants		350	
Powell Bill allocation		122,123	
Total	123,053	122,473	(580)
Permits and fees			
Building permits		86,651	
Court and parking fees		2,493	
Garbage and recycle fees		305,112	
Total	392,400	394,256	1,856
Sales and services			
Rents		270,964	
Annexation fees		510,000	
Sales of cemetery lots		4,450	
Total	778,080	785,414	7,334
Investment earnings	4,000	1,139	(2,861)

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2014

Miscellaneous			
Administrative reimbursement		30,000	
Insurance reimbursement		2,533	
Miscellaneous		10,925	
Total	38,254	43,458	5,204
Total revenues	4,933,200	5,030,072	96,872
EXPENDITURES			
General government			
Governing board			
Governing board fees		16,793	
Professional fees		52,200	
Other expenditures		52,673	
Capital outlay		558,545	
Total	682,308	680,211	2,097
Administration			
Salaries and benefits		310,774	
Operating expenditures		146,342	
Total	465,027	457,116	7,911
Finance			
Salaries and benefits		197,801	
Operating expenditures		47,188	
Total	253,528	244,989	8,539
Total general government	1,400,863	1,382,316	18,547
Public safety			
Police			
Salaries and benefits		931,267	
Operating expenditures		199,906	
Total	1,164,170	1,131,173	32,997
Planning and inspections			
Salaries and benefits		195,544	
Operating expenditures		15,816	
Total	216,127	211,360	4,767
Total public safety	1,380,297	1,342,533	37,764

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2014

Public works			
Salaries and benefits		257,938	
Operating expenditures		247,947	
Street lights		110,906	
Street maintenance		110,811	
Total public works	774,209	727,602	46,607
Environmental protection			
Sanitation			
Salaries and benefits		151,488	
Garbage and trash collection		145,661	
Total environmental protection	300,280	297,149	3,131
Cultural and recreation			
Facilities maintenance			
Salaries and benefits		87,443	
Operating expenditures		98,205	
Capital outlay		102,588	
Total	293,300	288,236	5,064
Debt service			
Principal	127,597	127,597	-
Interest	43,219	43,219	-
Total debt service	170,816	170,816	-
Total expenditures	4,319,765	4,208,652	111,113
Revenues over (under) expenditures	613,435	821,420	207,985
OTHER FINANCING SOURCES (USES)			
Transfer to Fire Fund	(795,364)	(795,364)	-
Transfer to capital project	(147,811)	(147,811)	-
Transfer from capital project	47,288	47,287	(1)
Sale of capital assets	24,384	407,860	383,476
Total other financing sources (uses)	(871,503)	(488,028)	383,475
Fund balance appropriated	258,068	-	(258,068)
Net change in fund balance	\$ -	333,392	\$ 333,392
Fund balance, beginning		2,501,137	
Fund balance, ending		\$ 2,834,529	

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Fire District Fund
For the Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes		\$ 318,975	
Sales tax		90,000	
Grants		1,074	
Investment earnings		61	
Miscellaneous		17,096	
Total revenues	\$ 416,728	427,206	\$ 10,478
EXPENDITURES			
Public safety			
Salaries and benefits		831,710	
Operating expenditures		196,988	
Total	1,071,561	1,028,698	42,863
Debt service			
Principal	100,135	100,134	
Interest	10,396	10,395	
Total	110,531	110,529	2
Total expenditures	1,182,092	1,139,227	42,865
Revenues over (under) expenditures	(765,364)	(712,021)	53,343
OTHER FINANCING SOURCES (USES)			
Transfer to capital project	(109,978)	(109,978)	-
Transfer from General Fund	795,364	795,364	-
Total other financing sources (uses)	685,386	685,386	-
Fund balance appropriated	79,978	-	(79,978)
Net change in fund balance	\$ -	(26,635)	\$ (26,635)
Fund balance, beginning		105,363	
Fund balance, ending		\$ 78,728	

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Highway 70 Utility Relocation
From Inception and For the Year Ended June 30, 2014

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Year	Current Year	Total to Date	
REVENUES					
State grants	\$ 3,858,539	\$ 3,892,374	\$ -	\$ 3,892,374	\$ 33,835
EXPENDITURES					
Engineering	659,712	485,655	-	485,655	174,057
Construction	3,403,000	3,359,432	-	3,359,432	43,568
Total expenditures	4,062,712	3,845,087	-	3,845,087	217,625
Revenues over (under) expenditures	(204,173)	47,287	-	47,287	251,460
OTHER FINANCING SOURCES (USES)					
Transfer to General Fund	(47,288)	-	(47,287)	-	1
Transfer from Enterprise Fund	251,461	-	-	-	(251,461)
Total other financing sources (uses)	204,173	-	(47,287)	-	(251,460)
Revenues and other financing sources over (under) expenditures	\$ -	\$ 47,287	\$ (47,287)	\$ 47,287	\$ -
Fund balance, beginning			47,287		
Fund balance, ending			\$ -		

Town of Beaufort
Schedule of Revenues, Expenditures, and
Changes in Fund Balances – Budget and Actual
Fire Substation Project
From Inception and For the Year Ended June 30, 2014

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Year	Current Year	Total to Date	
REVENUES					
County funds	\$ 264,461	\$ 264,461	\$ -	\$ 264,461	\$ -
EXPENDITURES					
Engineering	40,000	34,404	2,024	36,428	3,572
Construction	468,720	163,510	307,127	470,637	(1,917)
Administration	13,530	8,230	6,955	15,185	(1,655)
Total expenditures	522,250	206,144	316,106	522,250	-
Revenues over (under) expenditures	(257,789)	58,317	(316,106)	(257,789)	-
OTHER FINANCING SOURCES					
Transfer from Fire Fund	109,978	-	109,978	109,978	-
Transfer from General Fund	147,811	-	147,811	147,811	-
Total other financing sources	257,789	-	257,789	257,789	-
Revenues and other financing sources over (under) expenditures	\$ -	\$ 58,317	(58,317)	\$ -	\$ -
Fund balance, beginning			58,317		
Fund balance, ending			\$ -		

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Operating revenues			
Sewer service charges		\$ 2,182,351	
Water service charges		822,972	
Water and sewer tap fees		17,005	
Water connection fees		18,105	
Total	\$ 3,016,200	3,040,433	\$ 24,233
Nonoperating revenues			
Investment earnings		2,010	
Impact fees		69,300	
Sale of fixed assets		7,500	
Other		56,749	
Total	53,000	135,559	82,559
Total revenues	3,069,200	3,175,992	106,792
EXPENDITURES			
Water treatment and distribution			
Salaries and benefits		197,179	
Administrative expenditures		15,000	
Compliance testing		17,364	
Contract services		32,729	
Insurance		16,748	
Permits		7,880	
Postage		4,332	
Repairs and maintenance		5,528	
Supplies and maintenance		79,494	
Telephone and utilities		40,131	
Vehicle expense		13,350	
County water purchase		27,200	
Other		8,871	
Total	477,065	465,806	11,259

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual – (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2014

Wastewater collection and treatment			
Salaries and benefits		523,573	
Administrative expenditures		15,000	
Compliance testing		26,845	
Contract services		55,958	
Insurance		78,396	
Permits		2,235	
Postage		4,992	
Repairs and maintenance		39,384	
Supplies and materials		43,576	
Telephone and utilities		190,403	
Vehicle expense		35,052	
Other		15,484	
Total	1,058,649	1,030,898	27,751
Capital outlay	37,100	36,950	150
Debt service			
Principal	1,237,716	1,237,626	
Interest	479,632	396,436	
Total	1,717,348	1,634,062	83,286
Total expenditures	3,290,162	3,167,716	122,296
Revenues over (under) expenditures	(220,962)	8,276	229,238
OTHER FINANCING SOURCES (USES)			
Transfer to capital project	(31,248)	(31,247)	1
Fund balance appropriated	252,210	-	(252,210)
Revenues and other sources over (under) expenditures and other uses	\$ -	(22,971)	\$ (22,971)
Reconciliation from budgetary basis to full accrual:			
Reconciling items:			
Increase in accrued vacation		(4,232)	
Transfer to capital project		31,247	
Change in allowance for doubtful accounts		(4,062)	
Increase in accrued OPEB liability		(1,505)	
Debt principal		1,237,626	
Capital contributions		40,000	
Capital outlay		36,950	
Depreciation		(919,265)	
Total reconciling items		<u>416,759</u>	
Change in net position		<u>\$ 393,788</u>	

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual – (Non-GAAP)
Sycamore Wellhead & Raw Water Main Project
From Inception and For the Year Ended June 30, 2014

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Year	Current Year	Total to Date	
REVENUES					
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 935,000	\$ 763,457	\$ 171,543	\$ 935,000	\$ -
EXPENDITURES					
Administration	41,700	18,700	-	18,700	23,000
Engineering and construction	968,224	740,719	196,752	937,471	30,753
Property acquisition	10,076	10,076	-	10,076	-
Total expenditures	1,020,000	769,495	196,752	966,247	53,753
Revenues over (under) expenditures	(85,000)	(6,038)	(25,209)	(31,247)	53,753
OTHER FINANCING SOURCES					
Transfer from Utility Fund	85,000	-	31,247	31,247	(53,753)
Revenues and other financing sources over (under) expenditures	\$ -	\$ (6,038)	\$ 6,038	\$ -	\$ -

Town of Beaufort
Schedule of Ad Valorem Taxes Receivable
June 30, 2014

Fiscal Year	Uncollected Balance June 30, 2013	Additions	Collections and Credits	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 2,407,519	\$ 2,337,211	\$ 70,308
2012-2013	85,879	1,339	46,194	41,024
2011-2012	22,139	718	11,674	11,183
2010-2011	29,813	614	20,089	10,338
2009-2010	8,604	183	4,531	4,256
2008-2009	5,104	215	2,251	3,068
2007-2008	867	198	198	867
2006-2007	1,082	548	1,152	478
2005-2006	1,978	-	66	1,912
2004-2003	2,779	-	-	2,779
200-2004	593	-	593	-
	<u>\$ 158,838</u>	<u>\$ 2,411,334</u>	<u>\$ 2,423,959</u>	<u>146,213</u>
				<u>(17,562)</u>
				<u>\$ 128,651</u>
<u>Reconciliation with revenues:</u>				
				\$ 2,435,201
				(14,375)
				<u>3,133</u>
				<u>\$ 2,423,959</u>

**Town of Beaufort
Analysis of Current Tax Levy
Town-wide Levy
For the Year Ended June 30, 2014**

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 802,703,557	0.30	\$ 2,408,887	\$ 2,293,241	\$ 115,646
Penalties	-		1,736	1,736	-
Discoveries	1,572,354		4,718	4,718	-
Abatements	(2,607,431)		(7,822)	(6,708)	(1,114)
Total property valuation	<u>\$ 801,668,480</u>				
Net levy			\$ 2,407,519	\$ 2,292,987	\$ 114,532
Uncollected taxes at June 30, 2014			70,308	65,440	4,868
Current year's tax collected			<u>\$ 2,337,211</u>	<u>\$ 2,227,547</u>	<u>\$ 109,664</u>
Current levy collection percentage			<u>97.08%</u>	<u>97.15%</u>	<u>95.75%</u>

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Honorable Mayor and
Board of Commissioners
Town of Beaufort, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Beaufort, North Carolina's basic financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Beaufort's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Beaufort, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carly Riggs & Ingram, L.L.C.

New Bern, North Carolina
November 12, 2014

