

Town of Beaufort

FINANCIAL STATEMENTS

June 30, 2016



CRI CARR
RIGGS &
INGRAM

CPAs and Advisors

CRlcpa.com

**Town of Beaufort
Table of Contents
June 30, 2016**

TAB: REPORT

Independent Auditors' Report	1
Management's Discussion and Analysis	4

TAB: FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS:

Government-wide Financial Statements:

Exhibit 1 – Statement of Net Position	13
Exhibit 2 – Statement of Activities	14

Fund Financial Statements:

Exhibit 3 – Balance Sheet – Governmental Funds	15
Exhibit 3 – Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Exhibit 4 – Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Exhibit 4 – Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Exhibit 5 – Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – General Fund	19
Exhibit 6 – Statement of Revenues, Expenditures, and Changes in Fund Balances – Annual Budget and Actual – Major Special Revenue	20
Exhibit 7 – Statement of Net Position – Proprietary Funds	21
Exhibit 8 – Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	22
Exhibit 9 – Statement of Cash Flows – Enterprise Funds	23

Notes to the Financial Statements	24
-----------------------------------	----

**Town of Beaufort
Table of Contents
June 30, 2016**

REQUIRED SUPPLEMENTARY INFORMATION:

Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress and Employer Contributions	55
Other Postemployment Benefits – Retiree Health Plan Schedule of Funding Progress and Employer Contributions	56
Schedule of the Proportionate Share of the Net Pension Liability (Asset) – Local Government Employees' Retirement System	57
Schedule of Contributions – Local Government Employees' Retirement System	58

INDIVIDUAL FUND STATEMENTS AND SCHEDULES:

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	59
Fire District Fund	62
Capital Project Fund – Fire Station Project	63
Capital Project Fund – Community Improvement Project	64
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) – Utility Fund	65
Water Meter Project Fund	68

OTHER SCHEDULES:

Schedule of Ad Valorem Taxes Receivable	69
Analysis of Current Tax Levy – Town-wide Levy	70

COMPLIANCE SECTION:

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
---	----



**Town of Beaufort
Table of Contents
June 30, 2016**

TAB: REQUIRED COMMUNICATIONS

Required Communications	73
Accounting Policies, Judgments, and Sensitive Estimates & CRI Comments on Quality	79
Summary of Audit Adjustments	80
Management Representation Letter	81
Internal Control Findings	86

INDEPENDENT AUDITOR'S 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, 2016, 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, 2016, 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, the Other Postemployment Benefit Schedules of Funding Progress and Schedules of Employer Contributions, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and 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

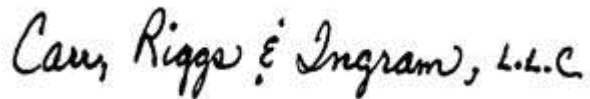
Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Beaufort, North Carolina. The individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional 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 December 2, 2016, 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.

A handwritten signature in black ink that reads "Cary Riggs & Ingram, L.L.C." The signature is written in a cursive, flowing style.

New Bern, North Carolina
December 2, 2016

Town of Beaufort Management Discussion and Analysis For the Year Ended June 30, 2016

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, 2016. 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

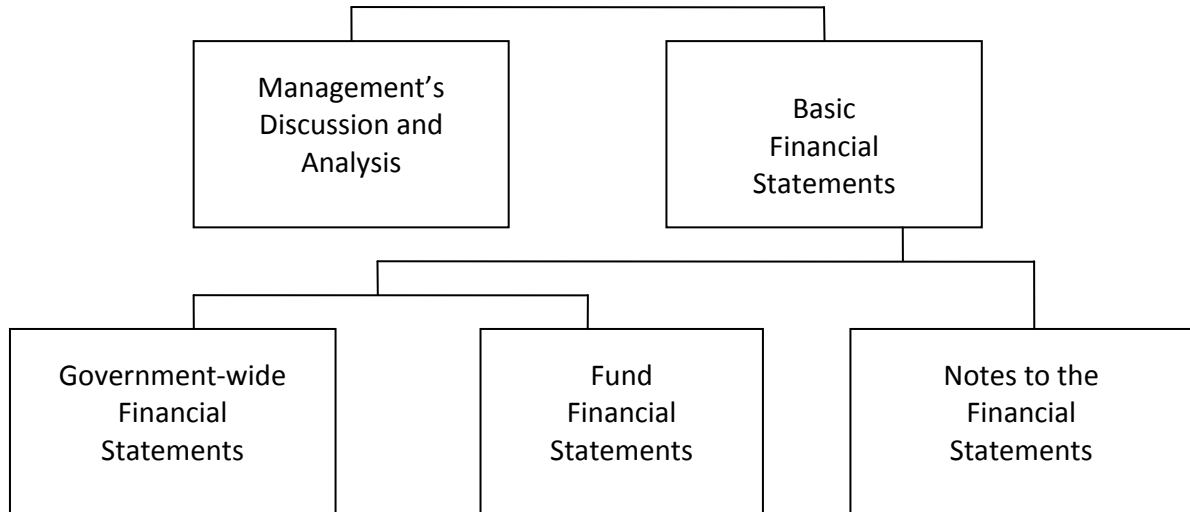
- The assets and deferred outflows of resources of the Town of Beaufort exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$28,819,669 (*net position*). This amount was comprised of net position in the governmental funds of \$8,879,491 and \$19,940,178 in business-type funds.
- The government's total net position increased by \$3,256,493, which consisted of an increase of governmental funds of \$2,709,496 and an increase in business-type funds of \$546,997.
- As of the close of the current fiscal year, the Town of Beaufort's governmental funds reported combined ending fund balances of \$7,039,395, an increase of \$4,043,711 over the prior year. Approximately 28% of this total amount, or \$2,014,319, is available for spending at the government's discretion.
- Long-term debt in the governmental funds increased by \$2,802,137. The Town assumed \$3,105,056 in new installment purchase agreements and reduced existing principal balances by \$302,919. Long-term debt in the enterprise funds decreased by a net amount of \$782,364 due to a reduction in existing principal balances. Outstanding long-term debt for the business-type funds totaled \$14,984,831.

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 9) 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.



Town of Beaufort Management Discussion and Analysis For the Year Ended June 30, 2016

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 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.

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2016**

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 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 24 of this report.

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 55 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	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 3,173,123	\$ 3,192,710	\$ 1,809,902	\$ 2,750,870	\$ 4,983,025	\$ 5,943,580
Restricted assets	4,612,884	298,683	2,421,207	2,152,659	7,034,091	2,451,342
Capital assets	6,504,536	5,111,628	31,028,898	30,668,727	37,533,434	35,780,355
Deferred outflows of resources	156,566	157,969	36,340	37,764	192,906	195,733
Total assets and deferred outflows of resources	14,447,109	8,760,990	35,296,347	35,610,020	49,743,456	44,371,010
Current liabilities	1,194,810	535,107	1,497,413	1,423,745	2,692,223	1,958,852
Long-term liabilities	4,262,816	1,444,259	13,830,520	14,651,736	18,093,336	16,095,995
Deferred inflows of resources	109,992	611,629	28,236	141,358.00	138,228	752,987
Total liabilities and deferred inflows of resources	5,567,618	2,590,995	15,356,169	16,216,839	20,923,787	18,807,834
Net investment in capital assets	2,065,526	3,474,755	16,044,067	14,901,532	18,109,593	18,376,287
Restricted net assets	2,744,270	852,107	-	-	2,744,270	852,107
Unrestricted net assets	4,069,695	1,843,133	3,896,111	4,491,649	7,965,806	6,334,782
Total net position	\$ 8,879,491	\$ 6,169,995	\$ 19,940,178	\$ 19,393,181	\$ 28,819,669	\$ 25,563,176

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2016**

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Beaufort exceeded liabilities and deferred inflows by \$28,819,669 as of June 30, 2016. The Town's net position increased by \$3,256,493 for the fiscal year ended June 30, 2016.

However, the largest portion 62% or \$18,109,593, 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.

Of the Town of Beaufort's net position at June 30, 2016, \$2,744,270, or 9%, represents resources that are subject to external restrictions on how they may be used. The unrestricted balance at year end was \$7,965,806.

Town of Beaufort's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 936,952	\$ 802,773	\$ 3,090,432	\$ 3,035,380	\$ 4,027,384	\$ 3,838,153
Operating grants	125,750	178,241	-	-	125,750	178,241
Capital grants	-	-	-	-	-	-
General revenues:						
Property taxes	3,029,331	2,966,058	-	-	3,029,331	2,966,058
Other taxes	1,407,109	1,261,395	-	-	1,407,109	1,261,395
Other revenues	2,524,934	551,584	151,127	164,570	2,676,061	716,154
Total revenues	8,024,076	5,760,051	3,241,559	3,199,950	11,265,635	8,960,001
Expenses:						
General government	967,253	932,374	-	-	967,253	932,374
Public safety	2,596,084	2,484,907	-	-	2,596,084	2,484,907
Transportation	1,205,733	1,237,481	-	-	1,205,733	1,237,481
Environmental protection	331,787	293,914	-	-	331,787	293,914
Cultural and recreation	164,437	226,150	-	-	164,437	226,150
Interest on long-term debt	49,286	53,214	-	-	49,286	53,214
Water and sewer	-	-	2,694,562	2,702,693	2,694,562	2,702,693
Total expenses	5,314,580	5,228,040	2,694,562	2,702,693	8,009,142	7,930,733
Change in net position	2,709,496	532,011	546,997	497,257	3,256,493	1,029,268
Restatement	-	(348,047)	-	(80,439)	-	(428,486)
Net position, July 1	6,169,995	5,986,031	19,393,181	18,976,363	25,563,176	24,962,394
Net position, June 30	\$ 8,879,491	\$ 6,169,995	\$ 19,940,178	\$ 19,393,181	\$ 28,819,669	\$ 25,563,176

Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2016

Governmental activities - Governmental activities resulted in an increase of the Town's net position by \$2,709,496. A \$2,000,000 donation, collection of a storm water fee, increased state taxes on utilities and an increase in Beaufort's share of local option sales tax resulted in the increase. Spending levels in public safety rose due to an increase in personnel cost. 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 \$546,997 resulting from a reduction in operational expenses and debt service payments.

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 \$2,888,284, of which \$2,014,319 was unassigned and available for use by the Board of Commissioners. This unassigned amount represents 45% 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 \$3,896,111.

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, 2016, totaled \$37,533,434 (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, 2016**

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

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,019,550	\$ 2,019,550	\$ 1,073,691	\$ 1,073,691	\$ 3,093,241	\$ 3,093,241
Construction in progress	1,452,800	57,311	792,750	-	2,245,550	57,311
Equipment	400,219	325,956	369,849	75,000	770,068	400,956
Vehicles	669,815	661,238	140,656	54,474	810,471	715,712
Buildings and improvements	1,362,934	1,416,202	165,744	180,581	1,528,678	1,596,783
Infrastructure	599,218	631,371	28,486,208	29,284,981	29,085,426	29,916,352
Total assets	\$ 6,504,536	\$ 5,111,628	\$ 31,028,898	\$ 30,668,727	\$ 37,533,434	\$ 35,780,355

Long-term Debt - Following is a summary of outstanding long-term obligations as of June 30, 2016 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	
	2016	2015	2016	2015	2016	2015
Installment loans	\$ 4,439,010	\$ 1,636,873	\$ 14,984,831	\$ 15,767,195	\$ 19,423,841	\$ 17,404,068

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 \$39,424,343.

Economic Factors and Next Year's Budgets and Rates

Moving forward into FY 2017, the Town's General Fund budget is largely flat. A property tax collection rate of 97.16% was utilized in accordance with the General Statutes. The tax rate remained at \$.03475 for FY17. The league of municipalities' projects only modest growth with these estimates reflected in the revenue projections for FY17. While at the beginning of FY17 no fund reserves were anticipated to be needed, Hurricane Matthew in early October resulted in approximately \$60,000 of previously unappropriated expenses. The Town has applied for FEMA assistance. It is likely that reserves will be required for the applicant portion of 25%. As with Irene, these reimbursements are often received in the following year. The Town continues to focus on improving the efficiency of service delivery, considering selective outsourcing as a possible alternative.

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2016**

An increase in fees for solid waste collection is included in the FY17 Budget. For the past several years, the cost of solid waste collection has been paid for by a combination of the monthly \$11.00 per household monthly fee and one-and-a-half cents of ad valorem. The FY17 Budget raises the household fee from \$11.00 per month to \$17.00 per month, or a \$72.00 annual household impact, to cover the full cost of solid waste collection. The \$17.00 fee covers costs associated with the collection and disposal of household refuse, recyclable materials, construction debris, and yard waste.

Beaufort had another strong tourist season, indicating that economic recovery continues. There was an increase in overall county spending levels and we expect this trend to continue in FY17 yielding an anticipated increase in local option sales tax. The State also restructured several of its sales tax mechanisms that resulted in larger than anticipated utilities related revenues in FY16. These distributions are projected to grow only slightly in FY17.

There are several large development projects that have seen little movement since the recession. However, with groundbreaking on the Preston Development projects, BeauCoast and Beaufort East Village building, permit revenue is expected to rise substantially. We may realize a slight uptick in revenue for both the General and Utility Funds with these projects.

The new Highway 70 bridge relocation project is on track, if not ahead of schedule, for completion in early 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.

As drainage and water quality remain a large concern, the Town continues to collect a stormwater fee for FY17. This revenue line item, conservatively projected at \$128,000, will go into the General Fund to pay for two dedicated stormwater personnel.

The Utility Fund continues to improve 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. The Town transitioned to digital read water meters in FY16. The new meters have decreased staff reading time by 80%, allowing additional work in the water department.

The new fire station should be complete by late December 2016. The existing fire station property will be placed on the market for sale. In fiscal years 2015 and 2016, the Town also provided fire protection for the North River Fire District. It is unclear at this time if this activity will be continued in FY17, but it appears that the County has signed a new contract with the North River Fire Department and Beaufort will return to servicing North River via mutual aid agreements. No other material changes in the Fire Fund are anticipated in FY17.



**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2016**

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, 2016
Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,300,322	\$ 1,503,454	\$ 3,803,776
Taxes receivable (net)	116,120	-	116,120
Accounts receivable (net)	597,097	306,448	903,545
Prepaid expenses	159,584	-	159,584
Restricted cash and cash equivalents	4,612,884	2,421,207	7,034,091
Total current assets	7,786,007	4,231,109	12,017,116
Noncurrent assets:			
Capital assets:			
Land and construction in progress	3,472,350	1,866,441	5,338,791
Capital assets, net of depreciation	3,032,186	29,162,457	32,194,643
Total capital assets	6,504,536	31,028,898	37,533,434
Total assets	14,290,543	35,260,007	49,550,550
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan in current year	156,566	36,340	192,906
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	626,925	92,137	719,062
Customer deposits	-	162,969	162,969
Compensated absences	136,561	31,607	168,168
Current portion of long-term liabilities	431,324	1,210,700	1,642,024
Total current liabilities	1,194,810	1,497,413	2,692,223
Long-term liabilities:			
Net pension liability	202,520	43,554	246,074
Due in more than one year	4,060,296	13,786,966	17,847,262
Total liabilities	5,457,626	15,327,933	20,785,559
DEFERRED INFLOWS OF RESOURCES			
Prepaid revenues	3,567	-	3,567
Pension deferrals	106,425	28,236	134,661
Total deferred inflows of resources	109,992	28,236	138,228
NET POSITION			
Net investment in capital assets	2,065,526	16,044,067	18,109,593
Restricted for:			
Stabilization by State Statute	654,408	-	654,408
Streets	89,862	-	89,862
Cultural and recreation	2,000,000	-	2,000,000
Unrestricted	4,069,695	3,896,111	7,965,806
Total net position	\$ 8,879,491	\$ 19,940,178	\$ 28,819,669

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

Town of Beaufort
Statement of Activities
For the Year Ended June 30, 2016
Exhibit 2

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 967,253	\$ 291,050	\$ -	\$ -	\$ (676,203)	\$ -	\$ (676,203)
Public safety	2,596,084	211,795	-	-	(2,384,289)	-	(2,384,289)
Transportation	1,205,733	-	122,250	-	(1,083,483)	-	(1,083,483)
Environmental protection	331,787	434,107	3,500	-	105,820	-	105,820
Cultural and recreation	164,437	-	-	-	(164,437)	-	(164,437)
Interest on long-term debt	49,286	-	-	-	(49,286)	-	(49,286)
Total governmental activities	5,314,580	936,952	125,750	-	(4,251,878)	-	(4,251,878)
Business-type activities:							
Utility fund	2,694,562	3,090,432	-	-	-	395,870	395,870
Total primary government	\$ 8,009,142	\$ 4,027,384	\$ 125,750	\$ -	(4,251,878)	395,870	(3,856,008)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					3,029,331	-	3,029,331
Other taxes					1,407,109	-	1,407,109
Grants and contributions not restricted					408,637	-	408,637
Investment earnings					7,955	7,634	15,589
Miscellaneous					2,108,342	143,493	2,251,835
Total general revenues					6,961,374	151,127	7,112,501
Change in net position					2,709,496	546,997	3,256,493
Net position - beginning					6,169,995	19,393,181	25,563,176
Net position - ending					\$ 8,879,491	\$ 19,940,178	\$ 28,819,669

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

Town of Beaufort
Balance Sheet- Governmental Funds
June 30, 2016
Exhibit 3

	Major Funds				Total Governmental Funds
	General Fund	Fire District Fund	Fire Station Fund	Community Improvement Fund	
ASSETS					
Cash and cash equivalents	\$ 2,154,631	\$ 145,691	\$ -	\$ -	\$ 2,300,322
Restricted cash	89,862	-	2,523,022	2,000,000	4,612,884
Ad valorem taxes receivable (net)	116,120	-	-	-	116,120
Due from other funds	57,311	-	-	-	57,311
Prepaid expenses	159,584	-	-	-	159,584
Accounts receivable	567,208	29,889	-	-	597,097
Total assets	3,144,716	175,580	2,523,022	2,000,000	7,843,318
LIABILITIES					
Accounts payable and accrued liabilities	136,745	27,670	462,510	-	626,925
Due to other funds	-	-	57,311	-	57,311
Total liabilities	136,745	27,670	519,821	-	684,236
DEFERRED INFLOWS OF RESOURCES					
Property tax receivable	116,120	-	-	-	116,120
Prepaid revenues	3,567	-	-	-	3,567
Total deferred inflows of resources	119,687	-	-	-	119,687
FUND BALANCES					
Non spendable					
Prepaid items	159,584	-	-	-	159,584
Restricted					
Stabilization of State Statute	624,519	29,889	-	-	654,408
Streets	89,862	-	-	-	89,862
Cultural and recreation	-	-	-	2,000,000	2,000,000
Assigned					
Public safety	-	118,021	2,003,201	-	2,121,222
Unassigned	2,014,319	-	-	-	2,014,319
Total fund balances	\$ 2,888,284	\$ 147,910	\$ 2,003,201	\$ 2,000,000	\$ 7,039,395

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

Town of Beaufort
Balance Sheet- Governmental Funds
June 30, 2016
Exhibit 3

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

Total fund balances - governmental funds	\$	7,039,395
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	9,913,628	
Accumulated depreciation	<u>(3,409,092)</u>	6,504,536
Contributions to the pension plan in the current fiscal year		156,566
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		116,120
Pension deferrals		(106,425)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Long-term debt		(4,439,010)
Compensated absences		(136,561)
Net pension liability		(202,520)
Other post-employment benefits		(52,610)
Net position of governmental funds	\$	8,879,491

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

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
For the Year Ended June 30, 2016
Exhibit 4

	Major Funds				Total Governmental Funds
	General Fund	Fire District Fund	Fire Station Fund	Community Improvement Fund	
REVENUES					
Ad valorem taxes	\$ 2,697,386	\$ 316,470	\$ -	\$ -	\$ 3,013,856
Other taxes and licenses	1,138,669	268,440	-	-	1,407,109
Unrestricted intergovernmental	408,637	-	-	-	408,637
Restricted intergovernmental	125,750	-	-	-	125,750
Permits and fees	645,902	-	-	-	645,902
Sales and services	291,050	-	-	-	291,050
Investment earnings	5,432	2,523	-	-	7,955
Miscellaneous	2,103,619	4,113	-	-	2,107,732
Total revenues	7,416,445	591,546	-	-	8,007,991
EXPENDITURES					
Current:					
General government	926,508	-	-	-	926,508
Public safety	1,499,787	1,124,761	1,395,488	-	4,020,036
Public works	1,304,335	-	-	-	1,304,335
Environmental protection	331,589	-	-	-	331,589
Cultural and recreation	135,274	-	-	-	135,274
Debt service					
Interest	41,875	7,309	-	-	49,184
Principal	196,091	106,929	-	-	303,020
Total expenditures	4,435,459	1,238,999	1,395,488	-	7,069,946
Excess (deficiency) of revenues over expenditures	2,980,986	(647,453)	(1,395,488)	-	938,045
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	610	-	-	-	610
Installment purchase obligation issued	105,056	-	3,000,000	-	3,105,056
Transfers from other funds	27,811	795,169	456,000	2,000,000	3,278,980
Transfers to other funds	(3,171,169)	(107,811)	-	-	(3,278,980)
Total other financing sources (uses)	(3,037,692)	687,358	3,456,000	2,000,000	3,105,666
Net change in fund balance	(56,706)	39,905	2,060,512	2,000,000	4,043,711
Fund balances - beginning	2,944,990	108,005	(57,311)	-	2,995,684
Fund balances - ending	\$ 2,888,284	\$ 147,910	\$ 2,003,201	\$ 2,000,000	\$ 7,039,395

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

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balance – Governmental Funds
For the Year Ended June 30, 2016
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 \$ 4,043,711

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.

Capital outlay expenditures which were capitalized	1,667,180	
Depreciation expense for governmental assets	<u>(274,273)</u>	1,392,907

Contribution to the pension plan in the current fiscal year		156,566
---	--	---------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenue		15,475
---	--	--------

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.

New long-term debt issued		(3,105,056)
Principal payments on long-term debt		302,919

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.

Other postemployment benefits		(6,314)
Pension expense		(104,383)
Compensated absences		<u>13,671</u>

Total changes in net position of governmental activities		<u>\$ 2,709,496</u>
--	--	---------------------

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

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2016
Exhibit 5

General Fund				
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 2,607,250	\$ 2,607,250	\$ 2,697,386	\$ 90,136
Other taxes and licenses	1,075,000	1,075,000	1,138,669	63,669
Unrestricted intergovernmental	370,300	370,300	408,637	38,337
Restricted intergovernmental	124,000	124,000	125,750	1,750
Permits and fees	587,000	587,000	645,902	58,902
Sales and services	266,500	266,500	291,050	24,550
Investment earnings	3,000	3,000	5,432	2,432
Miscellaneous	30,000	2,082,333	2,103,619	21,286
Total revenues	5,063,050	7,115,383	7,416,445	301,062
EXPENDITURES				
Current:				
General government	936,325	985,325	926,508	58,817
Public safety	1,440,250	1,597,250	1,499,787	97,463
Public works	1,545,128	1,647,461	1,304,335	343,126
Environmental protection	337,517	337,517	331,589	5,928
Cultural and recreation	169,316	179,316	135,274	44,042
Debt service				
Principal	195,177	195,177	196,091	(914)
Interest	44,168	44,168	41,875	2,293
Total expenditures	4,667,881	4,986,214	4,435,459	550,755
Revenues over (under) expenditures	395,169	2,129,169	2,980,986	851,817
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	610	610
Installment purchase obligation issued	-	105,000	105,056	56
Transfers from other funds	-	-	27,811	27,811
Transfers to other funds	(795,169)	(3,171,169)	(3,171,169)	-
Total other financing sources (uses)	(795,169)	(3,066,169)	(3,037,692)	28,477
Fund balance appropriated	400,000	937,000	-	(937,000)
Net change in fund balance	\$ -	\$ -	(56,706)	\$ (56,706)
Fund balances - beginning			2,944,990	
Fund balance - ending			<u>\$ 2,888,284</u>	

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

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
Major Special Revenue Fund
For the Year Ended June 30, 2016
Exhibit 6

Fire District Fund				
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 316,470	\$ 316,470	\$ 316,470	\$ -
Other taxes and licenses	172,907	238,552	268,440	29,888
Investment earnings	-	-	2,523	2,523
Miscellaneous	1,800	1,800	4,113	2,313
Total revenues	491,177	556,822	591,546	34,724
EXPENDITURES				
Current:				
Public safety	1,062,972	1,128,617	1,124,761	3,856
Debt service				
Principal	107,860	107,860	106,929	931
Interest	7,514	7,514	7,309	205
Total expenditures	1,178,346	1,243,991	1,238,999	4,992
Revenues over (under) expenditures	(687,169)	(687,169)	(647,453)	39,716
OTHER FINANCING SOURCES (USES)				
Transfers from General Fund	795,169	795,169	795,169	-
Transfers to General Fund	(28,000)	(28,000)	(27,811)	189
Transfer to capital project	(80,000)	(80,000)	(80,000)	-
Total other financing sources (uses)	687,169	687,169	687,358	189
Net change in fund balance	\$ -	\$ -	39,905	\$ 39,905
Fund balances - beginning			108,005	
Fund balance - ending			<u>\$ 147,910</u>	

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

Town of Beaufort
Statement of Fund Net Position
Proprietary Funds
June 30, 2016
Exhibit 7

Utility Fund

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,503,454
Accounts receivable (net)	306,448
Restricted cash and cash equivalents	2,421,207
Total current assets	4,231,109
Noncurrent assets:	
Capital assets:	
Land and construction in progress	1,866,441
Capital assets, net of depreciation	29,162,457
Total noncurrent assets	31,028,898
Total assets	35,260,007
DEFERRED OUTFLOWS OF RESOURCES	
Contribution to pension plan	36,340
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	92,137
Customer deposits	162,969
Compensated absences	31,607
Current portion of long-term liabilities	1,210,700
Total current liabilities	1,497,413
Noncurrent liabilities	
Long-term debt	13,774,131
Net pension liability	43,554
Other post-employment benefits	12,835
Total noncurrent liabilities	13,830,520
Total liabilities	15,327,933
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	28,236
NET POSITION	
Net investment in capital assets	16,044,067
Unrestricted	3,896,111
Total net position	\$ 19,940,178

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

Town of Beaufort
Statement of Revenues, Expenses and Changes
In Fund Net Position - Proprietary Funds
For the Year Ended June 30, 2016
Exhibit 8

	Utility Fund
OPERATING REVENUES	
Charges for services	\$ 3,052,702
Tap fees	22,005
Connection fees	15,725
<hr/>	
Total operating revenues	3,090,432
<hr/>	
OPERATING EXPENSES	
Water operations	459,544
Sewer operations	331,509
Wastewater treatment	670,651
Depreciation	886,288
<hr/>	
Total operating expenses	2,347,992
<hr/>	
Operating income (loss)	742,440
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	7,634
Impact fees	119,600
Other nonoperating revenues	23,893
Interest on long-term debt	(346,570)
<hr/>	
Total nonoperating revenues (expenses)	(195,443)
<hr/>	
Change in net position	546,997
Total net position, beginning	19,393,181
<hr/>	
Total net position, ending	\$ 19,940,178
<hr/>	

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

Town of Beaufort
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016
Exhibit 9

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,093,070
Cash paid for goods and services	(763,945)
Cash paid to or on behalf of employees	(721,249)
Customer deposits received	14,206
Customer deposits returned	(10,028)
Net cash provided (used) by operating activities	1,612,054
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Impact fees	119,600
Acquisition of capital assets	(1,246,459)
Installment purchase obligation issued	430,944
Principal paid on bonds	(1,213,308)
Interest paid on bonds	(346,570)
Other receipts	23,893
Net cash provided (used) by capital and financing activities	(2,231,900)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	7,634
Net increase (decrease) in cash and cash equivalents	(612,212)
Balances, beginning of year	4,536,873
Balances, ending of year	\$ 3,924,661
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 742,440
Adjustments to reconcile income to cash provided by operations:	
Depreciation	886,288
(Increase) decrease in accounts receivable	2,638
(Increase) decrease in net pension asset	57,570
(Increase) decrease in deferred outflows of resources - pensions	1,424
Increase (decrease) in accounts payable	(13,645)
Increase (decrease) in accrued vacation	(730)
Increase (decrease) in customer deposits	4,178
Increase (decrease) in deferred outflows of resources - pensions	(113,122)
Increase (decrease) in net pension liability	43,554
Increase (decrease) in OPEB liability	1,459
Total adjustments	869,614
Net cash provided by operating activities	\$ 1,612,054

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

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

Community Improvement Fund – This capital project fund is used to account for the construction of a new community park.

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 beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales tax are considered shared revenue for the Town because the tax is levied by Carteret County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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 Fire Station Capital Project Fund and Community Improvement Fund. 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; 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. Non-participating interest earning contracts are accounted for at cost. The NCCMT – Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, 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. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. The unexpended loan proceeds of the Fire Station Fund are restricted to the purpose of constructing a new fire station. Donations received in the Community Improvement Fund are classified as restricted as their use was restricted by the donor. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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, 2015.

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.

6. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical value. 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:

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. 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 one item that meets this criterion - contributions made to the pension plan in the 2016 fiscal year. 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 three items that meet this criterion for this category – prepaid taxes, property taxes receivable and deferrals of pension expense that result from the implementation of GASB 68.

9. 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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. 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.

11. Net Position/Fund Balances

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:

Non spendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact.

Prepaid items – Portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

11. Net Position/Fund Balances (continued)

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.

Restricted for Cultural and Recreation – portion of fund balance that is restricted by the donor for construction of a new community park.

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.

12. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Beaufort's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

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, 2016, the Town's deposits had a carrying amount of \$6,993,509 and a bank balance of \$6,929,746. 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, 2016, the Town's petty cash fund totaled \$400.

2. Investments

At June 30, 2016, the Town had \$3,843,958 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, 2016

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

A. Assets (continued)

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and Statement of Net Position for the year ended June 30, 2016 are net of the following allowances for doubtful accounts:

General Fund:

Taxes receivable	\$	14,233
Accounts receivable		6,845
<hr/>		
Total General Fund		21,078

Enterprise Fund:

Water and sewer accounts receivable		83,800
<hr/>		
Total	\$	104,878
<hr/>		
<hr/>		

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016

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

A. Assets (continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Construction in Progress	\$ 57,311	\$ 1,395,489	\$ -	\$ 1,452,800
Land	2,019,550	-	-	2,019,550
Total capital assets not being depreciated	2,076,861	1,395,489	-	3,472,350
Capital assets being depreciated:				
Equipment and fixtures	997,947	142,601	-	1,140,548
Vehicles	2,593,804	129,091	188,103	2,534,792
Buildings and improvements	1,971,552	-	-	1,971,552
Infrastructure	794,386	-	-	794,386
Total capital assets being depreciated	6,357,689	271,692	188,103	6,441,278
Less accumulated depreciation for:				
Equipment and fixtures	671,991	68,338	-	740,329
Vehicles	1,932,566	120,514	188,103	1,864,977
Buildings and improvements	555,350	53,268	-	608,618
Infrastructure	163,015	32,153	-	195,168
Total accumulated depreciation	3,322,922	274,273	188,103	3,409,092
Total capital assets being depreciated, net	<u>3,034,767</u>			<u>3,032,186</u>
Governmental activities capital assets net	<u>\$ 5,111,628</u>			<u>\$ 6,504,536</u>

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 52,827
Public safety	114,364
Public works	77,919
Cultural and recreation	29,163
Total depreciation expense	<u>\$ 274,273</u>

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,073,691	\$ -	\$ -	\$ 1,073,691
Construction in progress	-	792,750	-	792,750
Total capital assets not being depreciated	1,073,691	792,750	-	1,866,441
Capital assets being depreciated:				
Equipment and fixtures	622,680	321,194	-	943,874
Vehicles	299,223	106,710	-	405,933
Buildings and improvements	1,139,749	-	-	1,139,749
Plant and collection system	31,044,466	25,805	-	31,070,271
Plant and distribution system	4,888,345	-	-	4,888,345
Total capital assets being depreciated	37,994,463	453,709	-	38,448,172
Less accumulated depreciation for:				
Equipment and fixtures	547,680	26,345	-	574,025
Vehicles	244,749	20,528	-	265,277
Buildings and improvements	959,168	14,837	-	974,005
Plant & collection system	5,250,704	755,438	-	6,006,142
Plant and distribution system	1,397,126	69,140	-	1,466,266
Total accumulated depreciation	8,399,427	886,288	-	9,285,715
Total capital assets being depreciated, net	29,595,036			29,162,457
Business-type activities capital assets net	\$ 30,668,727			\$ 31,028,898

Construction commitments

The Town has active construction projects as of June 30, 2016. At year end, the Town's commitments with contracts are as follows:

Project	Spent to date	Remaining Commitment
Fire Station	\$ 1,452,799	\$ 2,023,201

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

B. Liabilities

1. Pension Plan and Post-Employment Obligations

(a) Local Governmental Employees' Retirement System

Plan Description – The Town of Beaufort is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEO's) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Government Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)

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

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Beaufort employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Beaufort's contractually required contribution rate for the year ended June 30, 2016, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Beaufort were \$192,906 for the year ended June 30, 2016.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)
 (a) Local Governmental Employees' Retirement System (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Town reported a liability of \$246,074 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.05483%, which was an increase of 0.00283% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$110,274. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 57,841
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	70,056
Changes in proportionate and differences between Town contributions and proportionate share of contributions	-	6,764
Town contributions subsequent to the measurement date	192,906	-
Total	\$ 192,906	\$ 134,661

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016**

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

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)
 (a) Local Governmental Employees' Retirement System (continued)

\$192,906 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (83,702)
2017	(83,702)
2018	(83,599)
2019	116,341
2020	-
Thereafter	-
Total	\$ (134,662)

Actuarial Assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)
 - (a) Local Governmental Employees' Retirement System (continued)

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.5%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)

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

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension liability to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 1,715,908	\$ 246,074	\$ (992,229)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

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

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)
 (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, 2015, the Separation Allowance membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>15</u>
Total	<u><u>16</u></u>

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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 67 and 68:

- contributions to the pension plan and earnings on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016

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

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)
 (b) Law Enforcement Officers' Special Separation Allowance (continued)

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, 2015 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	\$	36,888
Interest on net pension obligation		8,884
Adjustment to annual required contribution		(15,614)
<hr/>		
Annual pension cost		30,158
Contributions made		(16,085)
<hr/>		
Increase (decrease) in net pension obligation		14,073
Net pension obligation, beginning of year		177,684
<hr/>		
Net pension obligation, end of year	\$	191,757
<hr/>		

For Year Ended June 30	Annual Pension Cost	Percentage of Annual APC Contributed	Net Pension Obligation
2016	\$ 30,158	0%	\$ 191,757
2015	\$ 26,867	0%	\$ 177,684
2014	\$ 21,413	0%	\$ 151,460

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

B. Liabilities (continued)

1. Pension Plan and Post-Employment Obligations (continued)
 (b) Law Enforcement Officers' Special Separation Allowance (continued)

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$376,220. The covered payroll (annual payroll of active employees covered by the plan) was \$692,771, and the ratio of the UAAL to the covered payroll was 54.31%.

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, 2016 were \$171,725 which consisted of \$140,668 from the Town and \$31,057 from the employees.

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

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(d) 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, 2014, 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	64
Total	64

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.

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.

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

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	\$	8,007
Interest on net OPEB obligation		2,306
Adjustment to annual required contribution		(2,539)
<hr/>		
Annual pension cost		7,774
Contributions made		-
<hr/>		
Increase (decrease) in net OPEB obligation		7,774
Net OPEB obligation, beginning of year		57,671
<hr/>		
Net OPEB obligation, end of year	\$	65,445
<hr/>		

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, 2016 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 7,774	0%	\$ 65,445
2015	\$ 7,774	0%	\$ 57,671
2014	\$ 7,524	0%	\$ 49,897

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

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

Funded Status and Funding Progress – As of December 31, 2014, 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 \$64,380. The covered payroll (annual payroll of active employees covered by the plan) was \$2,634,809, and the ratio of the UAAL to the covered payroll was 2.4%. 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.

In the December 31, 2014 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 7.50 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, 2014 was 30 years.

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

B. Liabilities (continued)

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 outflows of resources at year-end is comprised of the following:

Contributions to pension plan in current fiscal year	\$ 192,906
--	------------

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

Taxes receivable (General Fund), less penalties	\$ 116,120
Prepaid revenues	3,567
Pension deferrals	<u>134,661</u>
Total	<u>\$ 254,348</u>

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 \$1,000,000 for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000.

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

4. Risk Management (continued)

The Town 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 is individually bonded for \$100,000. 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, 2016, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

(a) Installment Purchase

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.

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

B. Liabilities (continued)

6. Long-Term Obligations (continued)
 (a) Installment Purchase (continued)

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 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 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.

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.

In July 2014, the Town entered into an installment loan agreement for the purchase of parking meters. The agreement requires monthly payments of \$1,934 each, including principal and interest at 6.521%.

In June 2015, the Town entered into an installment loan agreement for the purchase of a fire boat. The agreement requires monthly payments of \$1,025 each, including principal and interest of 1.94%.

In December 2015, the Town entered into an installment loan agreement for the construction of a fire station. The agreement requires 30 semi-annual principal payments of \$100,000 each, plus interest at 3.35% per annum.

In December 2015, the Town entered into an installment loan agreement for the purchase of equipment and vehicles. The agreement requires 5 annual installments of \$117,625 each, including principal and interest at 1.77% per annum.

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016**

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

6. Long-Term Obligations (continued)

The future minimum payments of the installment purchase as of June 30, 2016, including \$557,076 of interest in the governmental activities and \$2,284,861 of interest in business-type activities are as follows:

Year Ended June 30	Governmental		Business-type	
	Principal	Interest	Principal	Interest
2017	\$ 431,324	\$ 145,808	\$ 1,210,700	\$ 326,035
2018	434,903	125,972	1,212,184	299,990
2019	360,610	112,043	1,213,695	273,919
2020	312,173	100,978	1,215,233	247,821
2021	300,000	19,175	1,126,835	221,696
2022-2026	1,500,000	51,625	5,634,175	740,073
2027-2031	1,100,000	1,475	3,177,389	168,122
2032-2034	-	-	194,620	7,205
Total	\$ 4,439,010	\$ 557,076	\$ 14,984,831	\$ 2,284,861

At June 30, 2016, the Town of Beaufort had a legal debt margin of \$39,424,343.

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2016

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	\$ 2,888,284
Less:	
Prepays	(159,584)
Stabilization by State Statute	(624,519)
Streets - Powell Bill	(89,862)
Remaining Fund Balance	\$ 2,014,319

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.

NOTE 5 SUBSEQUENT EVENT

In response to a recent court decision by the North Carolina Supreme Court regarding the validity of water and sewer impact fees, it was determined the Town could incur a potential liability for the repayment of impact fees collected in prior years. As this is a recent development, the amount and legal position taken by the Town could change depending on future determinations by the Courts.

Town of Beaufort
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
For the Year Ended June 30, 2016

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)
		Projected Unit Credit (a)	Unit (b)				
12/31/2006	\$ -	\$ 70,381	\$ 70,381	0%	\$ 559,924	12.57%	
12/31/2007	-	83,395	83,395	0%	578,743	14.41%	
12/31/2008	-	101,474	101,474	0%	631,673	16.06%	
12/31/2009	-	165,620	165,620	0%	683,977	24.21%	
12/31/2010	-	160,774	160,774	0%	653,278	24.61%	
12/31/2011	-	182,154	182,154	0%	662,670	27.49%	
12/31/2012	-	192,049	192,049	0%	635,014	30.24%	
12/31/2013	-	219,206	219,206	0%	625,485	35.05%	
12/31/2014	-	250,242	250,242	0%	657,943	38.03%	
12/31/2015	-	376,220	376,220	0%	692,771	54.31%	

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%
2015	-	0%
2016	-	0%

**Town of Beaufort
Retiree Health Plan
Required Supplementary Information
For the Year Ended June 30, 2016**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b- a/c)
12/31/2012	\$ -	\$ 68,147	\$ 68,147	0%	\$ 2,505,607	2.72%
12/31/2014	-	64,380	64,380	0%	2,634,809	2.44%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	\$ -	0%
2014	-	0%
2015	-	0%
2016	-	0%

Town of Beaufort
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
For the Year Ended June 30, 2016

Local Government Employees' Retirement System

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beaufort's proportion of the net pension liability (asset) (%)	0.5483%	0.052%	0.051%
Beaufort's proportion of the net pension liability (asset) (\$)	\$ 246,074	\$ (306,668)	\$ 618,362
Beaufort's covered-employee payroll	\$ 2,967,679	2,836,171	2,718,474
Beaufort's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.29%	-10.81%	22.75%
Plan fiduciary net position as a percentage of the total pension liability	98.09%	102.64%	94.35%

Town of Beaufort
Town of Beaufort's Contributions
Required Supplementary Information
For the Year Ended June 30, 2016

Local Government Employees' Retirement Systems

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 196,906	\$ 195,733	\$ 189,874
Contributions in relation to the contractually required contribution	<u>196,906</u>	<u>195,733</u>	<u>189,874</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beaufort's covered-employee payroll	\$ 2,967,679	\$ 2,836,171	\$ 2,718,474
Contributions as a percentage of covered-employee payroll	6.64%	6.90%	6.98%

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 2,679,089	
Penalties and interest		18,297	
Total	\$ 2,607,250	2,697,386	\$ 90,136
Other taxes and licenses			
Local option sales tax		1,019,183	
ABC net revenue		119,486	
Total	1,075,000	1,138,669	63,669
Unrestricted intergovernmental			
Utility franchise tax		372,398	
Beer and wine tax		18,194	
Payments in lieu of tax		18,045	
Total	370,300	408,637	38,337
Restricted intergovernmental			
Other grants		3,500	
Powell Bill allocation		122,250	
Total	124,000	125,750	1,750
Permits and fees			
Building permits		114,158	
Court and parking fees		97,637	
Stormwater fees		133,588	
Garbage and recycle fees		300,519	
Total	587,000	645,902	58,902
Sales and services			
Rents		285,800	
Sales of cemetery lots		5,250	
Total	266,500	291,050	24,550
Investment earnings	3,000	5,432	2,432

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2016

Miscellaneous			
Administrative reimbursement		40,801	
Donations		2,052,333	
Insurance reimbursement		5,420	
Miscellaneous		5,065	
Total	2,082,333	2,103,619	21,286
Total revenues	7,115,383	7,416,445	301,062
EXPENDITURES			
General government			
Governing board			
Governing board fees		16,793	
Professional fees		55,765	
Operating expenditures		42,888	
Total	122,375	115,446	6,929
Administration			
Salaries and benefits		357,226	
Operating expenditures		138,019	
Total	520,050	495,245	24,805
Finance			
Salaries and benefits		229,027	
Tax collection fees		60,758	
Operating expenditures		26,032	
Total	342,900	315,817	27,083
Total general government	985,325	926,508	58,817
Public safety			
Police			
Salaries and benefits		954,843	
Operating expenditures		186,553	
Capital outlay		102,289	
Total	1,293,100	1,243,685	49,415
Planning and inspections			
Salaries and benefits		202,676	
Operating expenditures		53,426	
Total	304,150	256,102	48,048
Total public safety	1,597,250	1,499,787	97,463

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2016

Public works			
Salaries and benefits		314,423	
Operating expenditures		381,623	
Street lights		103,676	
Street maintenance		335,210	
Capital outlay		169,403	
Total public works	1,647,461	1,304,335	343,126
Environmental protection			
Sanitation			
Salaries and benefits		184,661	
Garbage and trash collection		146,928	
Total environmental protection	337,517	331,589	5,928
Cultural and recreation			
Facilities maintenance			
Operating expenditures		135,274	
Total	179,316	135,274	44,042
Debt service			
Principal	195,177	196,091	(914)
Interest	44,168	41,875	2,293
Total debt service	239,345	237,966	1,379
Total expenditures	4,986,214	4,435,459	550,755
Revenues over (under) expenditures	2,129,169	2,980,986	851,817
OTHER FINANCING SOURCES (USES)			
Installment purchase obligation issued	105,000	105,056	56
Transfer to Fire Fund	(795,169)	(795,169)	-
Transfer to Capital Projects	(2,376,000)	(2,376,000)	-
Transfer from Fire Fund	-	27,811	27,811
Sale of capital assets	-	610	610
Total other financing sources (uses)	(3,066,169)	(3,037,692)	28,477
Fund balance appropriated	937,000	-	(937,000)
Net change in fund balance	\$ -	(56,706)	\$ (56,706)
Fund balance, beginning		2,944,990	
Fund balance, ending		\$ 2,888,284	

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Fire District Fund
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes	\$ 316,470	\$ 316,470	\$ -
Sales tax	238,552	268,440	29,888
Investment earnings	-	2,523	2,523
Miscellaneous	1,800	4,113	2,313
Total revenues	556,822	591,546	34,724
EXPENDITURES			
Public safety			
Salaries and benefits		960,143	
Operating expenditures		164,618	
Total	1,128,617	1,124,761	3,856
Debt service			
Principal	107,860	106,929	
Interest	7,514	7,309	
Total	115,374	114,238	1,136
Total expenditures	1,243,991	1,238,999	4,992
Revenues over (under) expenditures	(687,169)	(647,453)	39,716
OTHER FINANCING SOURCES (USES)			
Transfer to capital project	(80,000)	(80,000)	-
Transfer to General Fund	(28,000)	(27,811)	189
Transfer from General Fund	795,169	795,169	-
Total other financing sources (uses)	687,169	687,358	189
Net change in fund balance	\$ -	39,905	\$ 39,905
Fund balance, beginning		108,005	
Fund balance, ending		\$ 147,910	

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Fire Station Project
From Inception and For the Year Ended June 30, 2016

	Project Authorization	Prior Year	Actual		Variance Positive (Negative)
			Current Year	Total to Date	
EXPENDITURES					
Engineering	\$ 176,000	\$ 57,311	\$ 1,356,796	\$ 1,414,107	\$ (1,238,107)
Construction	3,100,000	-	-	-	3,100,000
Furnishings	100,000	-	-	-	100,000
Professional fees	100,000	-	38,692	38,692	61,308
Total expenditures	3,476,000	57,311	1,395,488	1,452,799	2,023,201
Revenues over (under) expenditures	(3,476,000)	(57,311)	(1,395,488)	(1,452,799)	2,023,201
OTHER FINANCING SOURCES (USES)					
Transfer from General Fund	376,000	-	376,000	376,000	-
Transfer from Fire Fund	100,000	-	80,000	80,000	(20,000)
Installment purchase obligation issued	3,000,000	-	3,000,000	3,000,000	-
Total other financing sources (uses)	3,476,000	-	3,456,000	3,456,000	(20,000)
Revenues and other financing sources over (under) expenditures	\$ -	\$ (57,311)	\$ 2,060,512	\$ 2,003,201	\$ 2,003,201
Fund balance, beginning			(57,311)		
Fund balance, ending			\$ 2,003,201		

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Community Improvement Project
From Inception and For the Year Ended June 30, 2016

	Project Authorization	Actual		Variance Positive (Negative)
		Current Year	Total to Date	
EXPENDITURES				
Community Improvement	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
Total expenditures	2,000,000	-	-	2,000,000
Revenues over (under) expenditures	(2,000,000)	-	-	2,000,000
OTHER FINANCING SOURCES (USES)				
Transfer from General Fund	2,000,000	2,000,000	2,000,000	-
Total other financing sources (uses)	2,000,000	2,000,000	2,000,000	-
Revenues and other financing sources over (under) expenditures	\$ -	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Fund balance, beginning		-		
Fund balance, ending		\$ 2,000,000		

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2016

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Operating revenues			
Sewer service charges		\$ 2,120,050	
Water service charges		932,652	
Water and sewer tap fees		22,005	
Water connection fees		15,725	
Total	\$ 3,026,600	3,090,432	\$ 63,832
Nonoperating revenues			
Investment earnings		7,634	
Impact fees		119,600	
Other		23,891	
Total	57,000	151,125	94,125
Total revenues	3,083,600	3,241,557	157,957
EXPENDITURES			
Water operations			
Salaries and benefits		192,823	
Administrative expenditures		25,801	
Compliance testing		12,329	
Contract services		27,229	
Permits		3,665	
Postage		4,632	
Repairs and maintenance		14,299	
Supplies and maintenance		96,878	
Telephone and utilities		35,606	
Vehicle expense		8,227	
County water purchase		29,862	
Other		10,617	
Total	495,170	461,968	33,202
Sewer operations			
Salaries and benefits		180,798	
Contract services		23,986	
Equipment lease		12,000	
Insurance		10,433	
Permits		1,310	
Postage		4,617	
Repairs and maintenance		22,169	
Supplies and materials		8,414	
Telephone and utilities		46,814	
Vehicle expense		13,763	
Other		10,616	
Total	336,940	334,920	2,020

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2016

Wastewater treatment plant			
Salaries and benefits		347,628	
Administrative expenditures		15,000	
Compliance testing		6,682	
Contract services		27,842	
Insurance		58,322	
Permits		7,010	
Repairs and maintenance		25,842	
Supplies and materials		44,421	
Telephone and utilities		124,406	
Vehicle expense		9,680	
Other		7,826	
Total	727,375	674,659	52,716
Capital outlay	550,816	453,709	97,107
Debt service			
Principal	1,213,309	1,213,308	
Interest	347,990	346,570	
Total	1,561,299	1,559,878	1,421
Total expenditures	3,671,600	3,485,134	36,643
Revenues over (under) expenditures	(588,000)	(243,577)	344,423
OTHER FINANCING SOURCES (USES)			
Installment purchase obligation issued	525,000	430,944	(94,056)
Transfer to capital project fund	(877,000)	(877,000)	-
Total other financing sources	(352,000)	(446,056)	(94,056)
Fund balance appropriated	940,000	-	(940,000)
Revenues and other sources over (under) expenditures and other uses	\$ -	(689,633)	\$ (689,633)

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2016

Reconciliation from budgetary basis to
full accrual:

Reconciling items:

Capital outlay	453,709
Depreciation	(886,288)
Decrease in compensated absences	730
Increase in accrued OPEB liability	(1,459)
Debt principal	1,213,308
Decrease in net pension asset	(57,570)
Decrease in deferred outflows - pensions	(1,424)
Increase in net pension liability	(43,554)
Decrease in deferred inflows - pensions	113,122
Transfer to capital project	877,000
Installment purchase obligation issued	(430,944)
Total reconciling items	1,236,630
Change in net position	\$ 546,997

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Water Meter Project
From Inception and For the Year Ended June 30, 2016

	Project Authorization	Actual		Variance Positive (Negative)
		Current Year	Total to Date	
EXPENDITURES				
Construction	\$ 877,000	\$ 792,750	\$ 792,750	\$ 84,250
Total expenditures	877,000	792,750	792,750	84,250
Revenues over (under) expenditures	(877,000)	(792,750)	(792,750)	84,250
OTHER FINANCING SOURCES (USES)				
Transfer from Utility Fund	877,000	877,000	877,000	-
Total other financing sources (uses)	877,000	877,000	877,000	-
Revenues and other financing sources over (under) expenditures	\$ -	\$ 84,250	\$ 84,250	\$ 84,250
Fund balance, beginning			-	
Fund balance, ending		\$ 84,250		

Town of Beaufort
Schedule of Ad Valorem Taxes Receivable
June 30, 2016

Fiscal Year	Uncollected Balance June 30, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015-2016	\$ -	\$ 2,698,694	\$ 2,629,031	\$ 69,663
2014-2015	71,999	-	44,452	27,547
2013-2014	13,945	-	2,716	11,229
2012-2013	9,281	-	262	9,019
2011-2012	6,445	-	428	6,017
2010-2011	3,780	-	393	3,387
2009-2010	2,046	-	414	1,632
2008-2009	1,309	-	354	955
2007-2008	688	-	299	389
2006-2007	448	-	212	236
2005-2006	490	-	211	279
	<u>\$ 110,431</u>	<u>\$ 2,698,694</u>	<u>\$ 2,678,772</u>	<u>130,353</u>
				<u>(14,233)</u>
				<u>\$ 116,120</u>
<u>Reconciliation with revenues:</u>				
				\$ 2,697,386
				(18,297)
				<u>(317)</u>
				<u>\$ 2,678,772</u>

**Town of Beaufort
Analysis of Current Tax Levy
Town-wide Levy
For the Year Ended June 30, 2016**

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 736,722,878	0.3475	\$ 2,700,643	\$ 2,560,112	\$ 140,531
Penalties	-		1,945	1,945	-
Abatements	(1,120,576)		(3,894)	(3,894)	-
Total property valuation	<u>\$ 735,602,302</u>				
Net levy			\$ 2,698,694	\$ 2,558,163	\$ 140,531
Uncollected taxes at June 30, 2016			69,663	69,663	-
Current year's tax collected			<u>\$ 2,629,031</u>	<u>\$ 2,488,500</u>	<u>\$ 140,531</u>
Current levy collection percentage			<u>97.42%</u>	<u>97.28%</u>	<u>100.00%</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, 2016, 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 December 2, 2016.

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.

Cary, Riggs & Ingram, L.L.C.

New Bern, North Carolina
December 2, 2016

