

Town of Beaufort

FINANCIAL STATEMENTS

June 30, 2017



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Beaufort, North Carolina, as of and for the year ended June 30, 2017, 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.

Auditors' 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 auditors' 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 auditors consider 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund, of the Town of Beaufort, North Carolina, as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 1 and Note 5 to the financial statements, the Town of Beaufort, North Carolina adopted Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinions are not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Other Postemployment Benefit Schedules of Funding Progress and Schedules of Employer Contributions on pages 55, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 56 and 57, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 58 and 59 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 January 19, 2018, on our consideration of the Town of Beaufort, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Beaufort's internal control over financial reporting and compliance.

Carly Riggs & Ingram, L.L.C.

New Bern, North Carolina
January 19, 2018

Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2017

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, 2017. 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

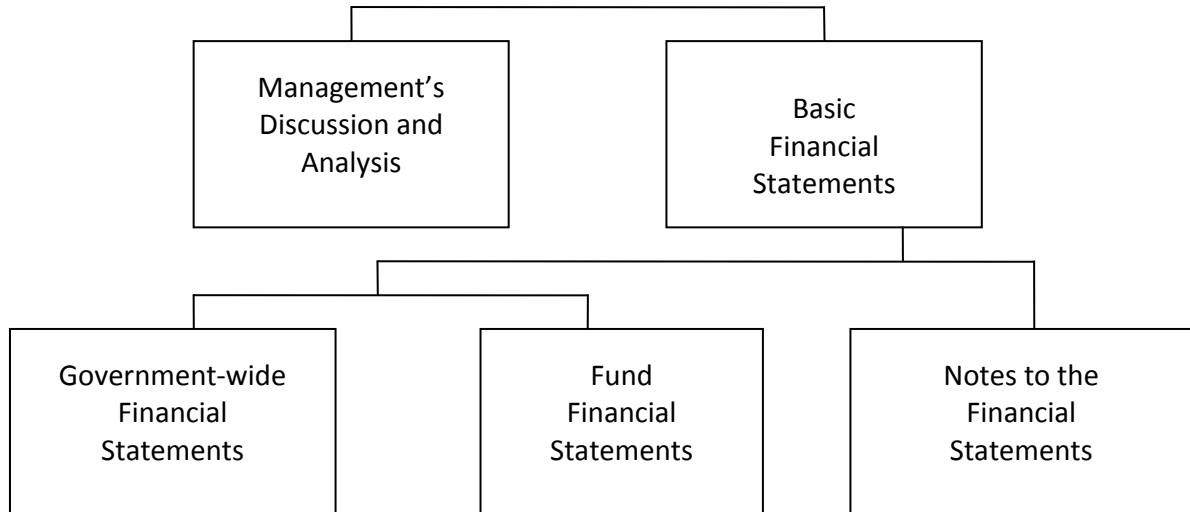
- The assets and deferred outflows of resources of the Town of Beaufort exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$30,022,044 (*net position*). This amount was comprised of net position in the governmental funds of \$9,477,687 and \$20,544,357 in business-type funds.
- The government's total net position increased by \$1,202,375, after restatement, which consisted of an increase of governmental funds of \$598,196 and an increase in business-type funds of \$604,179.
- As of the close of the current fiscal year, the Town of Beaufort's governmental funds reported combined ending fund balances of \$5,725,350, a decrease of \$1,314,045 over the prior year. Approximately 43% of this total amount, or \$2,474,546, is available for spending at the government's discretion.
- Long-term debt in the governmental funds increased by \$141,324. The Town assumed \$290,000 in new installment purchase agreements and reduced existing principal balances by \$431,324. Long-term debt in the enterprise funds decreased by a net amount of \$1,166,797. The Town assumed \$50,000 in new installment purchase agreements and reduced existing principal balances by \$1,216,797. Outstanding long-term debt for the business-type funds totaled \$13,818,034.

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, 2017

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, 2017**

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 23 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	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 3,983,514	\$ 3,173,123	\$ 1,983,179	\$ 1,809,902	\$ 5,966,693	\$ 4,983,025
Restricted assets	2,179,916	4,612,884	2,530,618	2,421,207	4,710,534	7,034,091
Capital assets	8,644,833	6,504,536	30,252,288	31,028,898	38,897,121	37,533,434
Deferred outflows of resources	789,982	156,566	181,523	36,340	971,505	192,906
Total assets and deferred outflows of resources	15,598,245	14,447,109	34,947,608	35,296,347	50,545,853	49,743,456
Current liabilities	878,887	1,194,810	1,555,486	1,497,413	2,434,373	2,692,223
Long-term liabilities	5,175,332	4,262,816	12,831,081	13,830,520	18,006,413	18,093,336
Deferred inflows of resources	66,339	109,992	16,684	28,236	83,023	138,228
Total liabilities and deferred inflows of resources	6,120,558	5,567,618	14,403,251	15,356,169	20,523,809	20,923,787
Net investment in capital assets	4,347,147	2,065,526	16,434,254	16,044,067	20,781,401	18,109,593
Restricted	2,886,988	2,744,270	-	-	2,886,988	2,744,270
Unrestricted	2,243,552	4,069,695	4,110,103	3,896,111	6,353,655	7,965,806
Total net position	\$ 9,477,687	\$ 8,879,491	\$ 20,544,357	\$ 19,940,178	\$ 30,022,044	\$ 28,819,669

**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2017**

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 of resources by \$30,022,044 as of June 30, 2017. The Town's net position increased by \$1,202,375 for the fiscal year ended June 30, 2017.

However, the largest portion 69% or \$20,781,401, 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, 2017, \$2,886,988, or 10%, represents resources that are subject to external restrictions on how they may be used. The unrestricted balance at year end was \$6,353,655.

Town of Beaufort's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,250,804	\$ 936,952	\$ 3,244,335	\$ 3,090,432	\$ 4,495,139	\$ 4,027,384
Operating grants	243,308	125,750	-	-	243,308	125,750
Capital grants	-	-	36,800	-	36,800	-
General revenues:						
Property taxes	3,086,223	3,029,331	-	-	3,086,223	3,029,331
Other taxes	1,419,550	1,407,109	-	-	1,419,550	1,407,109
Other revenues	650,687	2,524,934	270,092	151,127	920,779	2,676,061
Total revenues	6,650,572	8,024,076	3,551,227	3,241,559	10,201,799	11,265,635
Expenses:						
General government	995,691	967,253	-	-	995,691	967,253
Public safety	2,963,413	2,596,084	-	-	2,963,413	2,596,084
Transportation	944,606	1,205,733	-	-	944,606	1,205,733
Environmental protection	400,665	331,787	-	-	400,665	331,787
Cultural and recreation	240,907	164,437	-	-	240,907	164,437
Interest on long-term debt	146,316	49,286	-	-	146,316	49,286
Water and sewer	-	-	2,947,048	2,694,562	2,947,048	2,694,562
Total expenses	5,691,598	5,314,580	2,947,048	2,694,562	8,638,646	8,009,142
Change in net position	958,974	2,709,496	604,179	546,997	1,563,153	3,256,493
Restatement	(360,778)	-	-	-	(360,778)	-
Net position, July 1	8,879,491	6,169,995	19,940,178	19,393,181	28,819,669	25,563,176
Net position, June 30	\$ 9,477,687	\$ 8,879,491	\$ 20,544,357	\$ 19,940,178	\$ 30,022,044	\$ 28,819,669

Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2017

Governmental activities - Governmental activities resulted in an increase of the Town's net position by \$598,196, after restatement. An increase in building permits, increased state taxes on utilities and an increase in the Town's share of local option sales tax resulted in the increase. Spending levels in planning and public safety rose due to an increase in personnel costs. Governmental expenditures also increased with the debt service payments for the new Fire Station. 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 \$604,179 resulting from an increase in fees, sales, and service. These increases are attributable to new development and more accurate meter reading with the digital reading system.

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 \$3,548,092, of which \$2,474,546 was unassigned and available for use by the Board of Commissioners. This unassigned amount represents 52% of total General Fund expenditures for the year.

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

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year amounted to \$4,110,103.

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, 2017, totaled \$38,897,121 (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, 2017**

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

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 2,071,212	\$ 2,019,550	\$ 1,073,691	\$ 1,073,691	\$ 3,144,903	\$ 3,093,241
Construction in progress	6,750	1,452,800	-	792,750	6,750	2,245,550
Equipment	368,059	400,219	349,516	369,849	717,575	770,068
Vehicles	804,970	669,815	159,166	140,656	964,136	810,471
Buildings and improvements	4,826,775	1,362,934	150,907	165,744	4,977,682	1,528,678
Infrastructure	567,067	599,218	28,519,008	28,486,208	29,086,075	29,085,426
Total assets	\$ 8,644,833	\$ 6,504,536	\$ 30,252,288	\$ 31,028,898	\$ 38,897,121	\$ 37,533,434

Long-term Debt - Following is a summary of outstanding long-term obligations as of June 30, 2017 for the Town of Beaufort. Installment loans are debt backed by the full faith and credit of the Town and secured by the underlying assets. 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	
	2017	2016	2017	2016	2017	2016
Installment loans	\$ 4,297,686	\$ 4,439,010	\$ 13,818,034	\$ 14,984,831	\$ 18,115,720	\$ 19,423,841

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Beaufort is \$45,151,135.

Economic Factors and Next Year's Budgets and Rates

Moving forward into FY 2018, the Town's General Fund budget increases 17.3% from \$5.7 million to \$6.7 million. A property tax collection rate of 97.2% was utilized in accordance with the General Statutes. The tax rate increased to \$.03775 for FY18. Of this, proceeds of \$.02 of the tax rate (\$162,958) are reserved for street resurfacing. The Board of Commissioners voted to appropriate \$202,215 unassigned fund balance to acquire capital items, fund COLA, merit awards, new positions, and a transportation plan. The FY18 General Fund budget also includes a \$350,000 contribution from the Utility Fund. This covers administrative cost borne by the General Fund.

The recommended fund balance appropriation will leave an unrestricted fund balance of \$1,947,785, the equivalent of 29% of the total General Fund expenditures. This exceeds the Board's Financial Policy of a minimum requirement of 20%.



**Town of Beaufort
Management Discussion and Analysis
For the Year Ended June 30, 2017**

The budget for the Utility Fund increases 56% from \$3.4 million to \$5.3 million. FY18 includes an appropriation of restricted fund balance (Capacity Use Fees) of \$2,014,218. This appropriation is budgeted for several capital outlay projects, annual debt service on the wastewater treatment plant, and other projects.

The budget for the Fire Fund increases 23% from \$1.3 million to \$1.6 million. The increases are attributable to increased expenses for operation and the debt service associated with the new building.

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 or visit our website at www.beaufortnc.org

Town of Beaufort
Statement of Net Position
June 30, 2017
Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,065,684	\$ 1,567,917	\$ 4,633,601
Taxes receivable (net)	201,095	-	201,095
Accounts receivable (net)	709,385	415,262	1,124,647
Prepaid expenses	7,350	-	7,350
Restricted cash and cash equivalents	2,179,916	2,530,618	4,710,534
Total current assets	6,163,430	4,513,797	10,677,227
Noncurrent assets:			
Capital assets:			
Land and construction in progress	2,077,962	1,073,691	3,151,653
Capital assets, net of depreciation	6,566,871	29,178,597	35,745,468
Total capital assets	8,644,833	30,252,288	38,897,121
Total assets	14,808,263	34,766,085	49,574,348
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	589,343	142,546	731,889
Contributions to pension plan in current year	200,639	38,977	239,616
Total deferred outflows of resources	789,982	181,523	971,505
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	236,985	130,066	367,051
Customer deposits	-	168,479	168,479
Compensated absences	151,192	37,279	188,471
Current portion of long-term liabilities	490,710	1,219,662	1,710,372
Total current liabilities	878,887	1,555,486	2,434,373
Long-term liabilities:			
Net pension liability	924,998	218,303	1,143,301
Total pension liability	383,955	-	383,955
Due in more than one year	3,866,379	12,612,778	16,479,157
Total liabilities	6,054,219	14,386,567	20,440,786
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	66,339	16,684	83,023
NET POSITION			
Net investment in capital assets	4,347,147	16,434,254	20,781,401
Restricted for:			
Stabilization by State Statute	709,385	-	709,385
Streets	184,353	-	184,353
Cultural and recreation	1,993,250	-	1,993,250
Unrestricted	2,243,552	4,110,103	6,353,655
Total net position	\$ 9,477,687	\$ 20,544,357	\$ 30,022,044

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, 2017
Exhibit 2**

Functions/ Programs	Net (Expense) Revenue and Changes in Net Position						
	Expenses	Program Revenues			Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 995,691	\$ 294,410	\$ -	\$ -	\$ (701,281)	\$ -	\$ (701,281)
Public safety	2,963,413	343,713	28,515	-	(2,591,185)	-	(2,591,185)
Transportation	944,606	-	121,382	-	(823,224)	-	(823,224)
Environmental protection	400,665	612,681	93,411	-	305,427	-	305,427
Cultural and recreation	240,907	-	-	-	(240,907)	-	(240,907)
Interest on long-term debt	146,316	-	-	-	(146,316)	-	(146,316)
Total governmental activities	5,691,598	1,250,804	243,308	-	(4,197,486)	-	(4,197,486)
Business-type activities:							
Utility fund	2,947,048	3,244,335	-	36,800	-	334,087	334,087
Total primary government	\$ 8,638,646	\$ 4,495,139	\$ 243,308	\$ 36,800	(4,197,486)	334,087	(3,863,399)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					3,086,223	-	3,086,223
Other taxes					1,419,550	-	1,419,550
Grants and contributions not restricted					399,585	-	399,585
Investment earnings					17,021	11,317	28,338
Donated assets					64,902	-	64,902
Miscellaneous					169,179	258,775	427,954
Total general revenues					5,156,460	270,092	5,426,552
Change in net position					958,974	604,179	1,563,153
Net position - beginning, previously reported					8,879,491	19,940,178	28,819,669
Restatement					(360,778)	-	(360,778)
Net position - beginning, as restated					8,518,713	19,940,178	28,458,891
Net position - ending					\$ 9,477,687	\$ 20,544,357	\$ 30,022,044

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

Town of Beaufort
Balance Sheet- Governmental Funds
June 30, 2017
Exhibit 3

	Major Funds				Total Governmental Funds
	General Fund	Fire District Fund	Fire Station Fund	Community Improvement Fund	
ASSETS					
Cash and cash equivalents	\$ 2,880,925	\$ 184,759	\$ -	\$ -	\$ 3,065,684
Restricted cash	184,353	-	2,313	1,993,250	2,179,916
Ad valorem taxes receivable (net)	201,095	-	-	-	201,095
Prepaid expenses	7,350	-	-	-	7,350
Accounts receivable	679,628	29,757	-	-	709,385
Total assets	3,953,351	214,516	2,313	1,993,250	6,163,430
LIABILITIES					
Accounts payable and accrued liabilities	204,164	32,413	408	-	236,985
DEFERRED INFLOWS OF RESOURCES					
Property tax receivable	201,095	-	-	-	201,095
FUND BALANCES					
Non spendable					
Prepaid items	7,350	-	-	-	7,350
Restricted					
Stabilization of State Statute	679,628	29,757	-	-	709,385
Streets - Powell Bill	184,353	-	-	-	184,353
Cultural and recreation	-	-	-	1,993,250	1,993,250
Assigned					
Public safety	-	54,346	1,905	-	56,251
Subsequent year's expenditures	202,215	98,000	-	-	300,215
Unassigned	2,474,546	-	-	-	2,474,546
Total fund balances	3,548,092	182,103	1,905	1,993,250	5,725,350
Total Liabilities, Deferred Inflows and					
Fund Balance	\$ 3,953,351	\$ 214,516	\$ 2,313	\$ 1,993,250	\$ 6,163,430

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

Town of Beaufort
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2017
Exhibit 3

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

Total fund balances - governmental funds	\$ 5,725,350
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	12,273,727
Accumulated depreciation	<u>(3,628,894)</u>
Contributions to the pension plan in the current fiscal year	200,639
Deferred outflows of resources related to pensions	589,343
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	201,095
Pension deferrals	(66,339)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.	
Long-term debt	(4,297,686)
Compensated absences	(151,192)
Net pension liability	(924,998)
Total pension liability	(383,955)
Other post-employment benefits	(59,403)
Net position of governmental funds	\$ 9,477,687

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

Town of Beaufort
Statement of Revenues, Expenditures and Changes
In Fund Balances – Governmental Funds
For the Year Ended June 30, 2017
Exhibit 4

	Major Funds				Total Governmental Funds
	General Fund	Fire District Fund	Fire Station Fund	Community Improvement Fund	
REVENUES					
Ad valorem taxes	\$ 2,683,623	\$ 317,625	\$ -	\$ -	\$ 3,001,248
Other taxes and licenses	1,243,461	176,089	-	-	1,419,550
Unrestricted intergovernmental	399,585	-	-	-	399,585
Restricted intergovernmental	214,793	28,515	-	-	243,308
Permits and fees	956,394	-	-	-	956,394
Sales and services	294,410	-	-	-	294,410
Investment earnings	12,944	4,077	-	-	17,021
Miscellaneous	131,796	34,127	-	-	165,923
Total revenues	5,937,006	560,433	-	-	6,497,439
EXPENDITURES					
Current:					
General government	935,965	-	-	-	935,965
Public safety	1,653,807	1,226,222	2,058,607	-	4,938,636
Public works	895,284	-	-	-	895,284
Environmental protection	538,355	-	-	-	538,355
Cultural and recreation	212,110	-	-	6,750	218,860
Debt service					
Interest	141,380	4,936	-	-	146,316
Principal	345,942	85,382	-	-	431,324
Total expenditures	4,722,843	1,316,540	2,058,607	6,750	8,104,740
Excess (deficiency) of revenues over expenditures	1,214,163	(756,107)	(2,058,607)	(6,750)	(1,607,301)
OTHER FINANCING SOURCES (USES)					
Sale of capital assets	3,256	-	-	-	3,256
Installment purchase obligation issued	290,000	-	-	-	290,000
Transfers from other funds	-	790,300	57,311	-	847,611
Transfers to other funds	(847,611)	-	-	-	(847,611)
Total other financing sources (uses)	(554,355)	790,300	57,311	-	293,256
Net change in fund balance	659,808	34,193	(2,001,296)	(6,750)	(1,314,045)
Fund balances - beginning	2,888,284	147,910	2,003,201	2,000,000	7,039,395
Fund balances - ending	\$ 3,548,092	\$ 182,103	\$ 1,905	\$ 1,993,250	\$ 5,725,350

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

Town of Beaufort
Reconciliation of Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2017
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 \$ (1,314,045)

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	2,359,372	
Depreciation expense for governmental assets	<u>(283,980)</u>	2,075,392

Contribution to the pension plan in the current fiscal year		185,197
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Benefit payments paid and administrative expense for the LEOSSA are not reported on the Statement of Activities		15,442
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Value of donated assets		64,902
Change in unavailable revenue for tax revenue		84,975

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		(290,000)
Principal payments on long-term debt		431,324

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		(6,793)
Pension expense		(272,788)
Compensated absences		<u>(14,632)</u>

Total changes in net position of governmental activities		<u>\$ 958,974</u>
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The notes to the financial statements are an integral part of this statement.

Town of Beaufort
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Annual Budget and Actual – General Fund
For the Year Ended June 30, 2017
Exhibit 5

	General Fund			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 2,620,500	\$ 2,630,500	\$ 2,683,623	\$ 53,123
Other taxes and licenses	1,098,000	1,098,000	1,243,461	145,461
Unrestricted intergovernmental	422,000	422,000	399,585	(22,415)
Restricted intergovernmental	201,000	344,500	214,793	(129,707)
Permits and fees	833,850	863,850	956,394	92,544
Sales and services	270,500	270,500	294,410	23,910
Investment earnings	-	7,400	12,944	5,544
Miscellaneous	37,400	30,000	131,796	101,796
Total revenues	5,483,250	5,666,750	5,937,006	270,256
EXPENDITURES				
Current:				
General government	948,150	997,150	935,965	61,185
Public safety	1,664,200	1,713,100	1,653,807	59,293
Public works	1,007,681	1,134,485	895,284	239,201
Environmental protection	740,850	740,850	538,355	202,495
Cultural and recreation	156,319	333,629	212,110	121,519
Debt service				
Principal	347,200	347,200	345,942	1,258
Interest	141,550	141,550	141,380	170
Total expenditures	5,005,950	5,407,964	4,722,843	685,121
Revenues over (under) expenditures	477,300	258,786	1,214,163	955,377
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	-	-	3,256	3,256
Installment purchase obligation issued	285,000	290,000	290,000	-
Transfers to other funds	(762,300)	(980,300)	(847,611)	132,689
Total other financing sources (uses)	(477,300)	(690,300)	(554,355)	135,945
Fund balance appropriated	-	431,514	-	(431,514)
Net change in fund balance	\$ -	\$ -	659,808	\$ 659,808
Fund balances - beginning			2,888,284	
Fund balance - ending			\$ 3,548,092	

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, 2017
Exhibit 6

Fire District Fund				
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 317,625	\$ 317,625	\$ 317,625	\$ -
Other taxes and licenses	174,490	174,490	176,089	1,599
Restricted intergovernmental	-	28,515	28,515	-
Investment earnings	-	-	4,077	4,077
Miscellaneous	1,800	32,518	34,127	1,609
Total revenues	493,915	553,148	560,433	7,285
EXPENDITURES				
Current:				
Public safety	1,165,896	1,265,129	1,226,222	38,907
Debt service				
Principal	85,382	85,382	85,382	-
Interest	4,937	4,937	4,936	1
Total expenditures	1,256,215	1,355,448	1,316,540	38,908
Revenues over (under) expenditures	(762,300)	(802,300)	(756,107)	46,193
OTHER FINANCING SOURCES (USES)				
Transfers from General Fund	762,300	802,300	790,300	(12,000)
Transfer to capital project	-	(20,000)	-	20,000
Total other financing sources (uses)	762,300	782,300	790,300	8,000
Fund balance appropriated		20,000	-	(20,000)
Net change in fund balance	\$ -	\$ -	34,193	\$ 34,193
Fund balances - beginning			147,910	
Fund balance - ending			<u>\$ 182,103</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, 2017
Exhibit 7
Utility Fund

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,567,917
Accounts receivable (net)	415,262
Restricted cash and cash equivalents	2,530,618
Total current assets	4,513,797
Noncurrent assets:	
Capital assets:	
Land and construction in progress	1,073,691
Capital assets, net of depreciation	29,178,597
Total noncurrent assets	30,252,288
Total assets	34,766,085
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	142,546
Contribution to pension plan	38,977
Total deferred outflows of resources	181,523
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	130,066
Customer deposits	168,479
Compensated absences	37,279
Current portion of long-term liabilities	1,219,662
Total current liabilities	1,555,486
Noncurrent liabilities	
Long-term debt	12,598,372
Net pension liability	218,303
Other post-employment benefits	14,406
Total noncurrent liabilities	12,831,081
Total liabilities	14,386,567
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	16,684
NET POSITION	
Net investment in capital assets	16,434,254
Unrestricted	4,110,103
Total net position	\$ 20,544,357

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, 2017
Exhibit 8

	Utility Fund
OPERATING REVENUES	
Charges for services	\$ 3,122,235
Tap fees	99,475
Connection fees	22,625
<hr/>	
Total operating revenues	3,244,335
<hr/>	
OPERATING EXPENSES	
Water operations	594,949
Sewer operations	383,535
Wastewater treatment	747,477
Depreciation	904,972
<hr/>	
Total operating expenses	2,630,933
<hr/>	
Operating income (loss)	613,402
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	11,317
Capacity use fees	115,300
Other nonoperating revenues	58,475
Capital contributions	36,800
Gain on sale of fixed assets	85,000
Interest on long-term debt	(316,115)
<hr/>	
Total nonoperating revenues (expenses)	(9,223)
<hr/>	
Change in net position	604,179
Total net position, beginning	19,940,178
<hr/>	
Total net position, ending	\$ 20,544,357
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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, 2017
Exhibit 9

	Utility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 3,135,522
Cash paid for goods and services	(841,630)
Cash paid to or on behalf of employees	(821,146)
Customer deposits received	16,250
Customer deposits returned	(10,740)
Net cash provided (used) by operating activities	1,478,256
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capacity use fees collected	115,300
Acquisition of capital assets	(128,362)
Installment purchase obligation issued	50,000
Principal paid on long-term debt	(1,216,797)
Interest paid on long-term debt	(316,115)
Sale of capital assets	85,000
Capital contributions	36,800
Other receipts	58,475
Net cash provided (used) by capital and financing activities	(1,315,699)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest earned	11,317
Net increase (decrease) in cash and cash equivalents	173,874
Balances, beginning of year	3,924,661
Balances, ending of year	\$ 4,098,535
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 613,402
Adjustments to reconcile income to cash provided by operations:	
Depreciation	904,972
(Increase) decrease in accounts receivable	(108,813)
(Increase) decrease in deferred outflows of resources - pensions	(145,184)
Increase (decrease) in accounts payable	37,927
Increase (decrease) in accrued vacation	5,672
Increase (decrease) in customer deposits	5,510
Increase (decrease) in deferred outflows of resources - pensions	(11,550)
Increase (decrease) in net pension liability	174,749
Increase (decrease) in OPEB liability	1,571
Total adjustments	864,854
Net cash provided by operating activities	\$ 1,478,256

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 (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, 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, 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 – Government 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.

Governmental activities:

General Fund	Streets	\$ 184,353
Fire Station Fund	Construction	2,313
Community Improvement Fund	Construction	1,993,250
Total governmental activities		\$ 2,179,916

Business-type activities:

Utility Fund	Deposits	\$ 168,479
Utility Fund	Impact fees	2,362,139
Total business-type activities		\$ 2,530,618

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

E. Assets, Deferred Outflows/Inflows of Resources, 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, 2016.

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 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 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, and Fund Equity (continued)

8. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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 two items that meet this criterion – pension deferrals for the 2017 fiscal year and contributions made to the pension plan in the 2017 fiscal year. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet this criterion for this category – property taxes receivable and pension deferrals.

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, 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, 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.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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

12. Defined Benefit Cost-Sharing Plans

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 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in 2018. The statements address:

- OPEB—accounting and financial reporting by employers;
- Split-interest agreements;
- Various practice issues (Omnibus); and
- Certain debt extinguishment issues.

The Town of Beaufort is currently evaluating the effects that these statements will have on its 2018 financial statements.

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

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2017**

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

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, 2017, the Town’s deposits had a carrying amount of \$4,896,403 and a bank balance of \$5,035,648. Of the bank balance, \$1,000,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2017, the Town’s petty cash fund totaled \$400.

2. Investments

At June 30, 2017, the Town had \$4,447,332 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.

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, 2017 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 23,730
Accounts receivable	9,895
<hr/>	
Total General Fund	33,625
Enterprise Fund:	
Water and sewer accounts receivable	80,749
<hr/>	
Total	\$ 114,374
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**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2017**

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Construction in Progress	\$ 1,452,800	\$ 2,065,356	\$ 3,511,406	\$ 6,750
Land	2,019,550	51,662	-	2,071,212
Total capital assets not being depreciated	3,472,350	2,117,018	3,511,406	2,077,962
Capital assets being depreciated:				
Equipment and fixtures	1,140,548	25,592	-	1,166,140
Vehicles	2,534,792	268,427	64,178	2,739,041
Buildings and improvements	1,971,552	3,524,646	-	5,496,198
Infrastructure	794,386	-	-	794,386
Total capital assets being depreciated	6,441,278	3,818,665	64,178	10,195,765
Less accumulated depreciation for:				
Equipment and fixtures	740,329	57,752	-	798,081
Vehicles	1,864,977	133,272	64,178	1,934,071
Buildings and improvements	608,618	60,805	-	669,423
Infrastructure	195,168	32,151	-	227,319
Total accumulated depreciation	3,409,092	283,980	64,178	3,628,894
Total capital assets being depreciated, net	<u>3,032,186</u>			<u>6,566,871</u>
Governmental activities capital assets net	<u>\$ 6,504,536</u>			<u>\$ 8,644,833</u>

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 49,171
Public safety	128,008
Public works	78,004
Cultural and recreation	28,797
Total depreciation expense	<u>\$ 283,980</u>

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2017

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	61,090	853,840	-
Total capital assets not being depreciated	1,866,441	61,090	853,840	1,073,691
Capital assets being depreciated:				
Equipment and fixtures	943,874	25,850	219,620	750,104
Vehicles	405,933	41,422	-	447,355
Buildings and improvements	1,139,749	-	-	1,139,749
Plant and collection system	31,070,271	-	-	31,070,271
Plant and distribution system	4,888,345	853,840	-	5,742,185
Total capital assets being depreciated	38,448,172	921,112	219,620	39,149,664
Less accumulated depreciation for:				
Equipment and fixtures	574,025	46,183	219,620	400,588
Vehicles	265,277	22,912	-	288,189
Buildings and improvements	974,005	14,837	-	988,842
Plant & collection system	6,006,142	749,528	-	6,755,670
Plant and distribution system	1,466,266	71,512	-	1,537,778
Total accumulated depreciation	9,285,715	904,972	219,620	9,971,067
Total capital assets being depreciated, net	29,162,457			29,178,597
Business-type activities capital assets net	\$ 31,028,898			\$ 30,252,288

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, 2017, was 7.01% of compensation for law enforcement officers and 6.46% 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 \$224,174 for the year ended June 30, 2017.

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.

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, 2017, the Town reported a liability of \$1,143,301 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability 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 0.05487%, which was an increase of 0.00004% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$298,938. At June 30, 2017, 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	\$ 21,481	\$ 40,063
Changes of assumptions	78,306	-
Net differences between projected and actual earnings on pension plan investments	632,102	-
Changes in proportionate and differences between Town contributions and proportionate share of contributions	-	35,292
Town contributions subsequent to the measurement date	224,174	-
Total	\$ 956,063	\$ 75,355

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)

\$224,174 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 95,026
2019	95,127
2020	291,593
2021	174,788
2022	-
Thereafter	-
Total	\$ 656,534

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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)	\$ 2,713,589	\$ 1,143,301	\$ (168,318)

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.

(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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85% 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.

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2016, 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>

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 73.

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.50 to 7.35 percent
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Death Before Retirement: RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

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)

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retirees base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and females.

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. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$15,442 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a total pension liability of \$383,955. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$30,845.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	7,668
Benefit payments and administrative expenses subsequent to the measurement date	15,442	-
Total	\$ 15,442	\$ 7,668

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)

\$15,442 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ (1,374)
2019	(1,374)
2020	(1,374)
2021	(1,374)
2022	(1,374)
Thereafter	(798)
Total	\$ (7,668)

\$

15,442 paid as benefits came due subsequent to the measurement date is reported as deferred outflows of resources.

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate

The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is percentage point lower (2.86 percent) and 1 percentage point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 416,240	\$ 383,955	\$ 354,692

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)

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance**

	2017
Beginning balance	\$ 376,220
Service cost	19,064
Interest on the total pension liability	13,155
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(9,042)
Benefits payments	(15,442)
Other changes	-
Ending balance of the total pension liability	\$ 383,955

The plan currently uses mortality tables that vary by age, 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 on the U.S. population. The health mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

(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.

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

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(c) Supplemental Retirement Income Plan for Law Enforcement Officers (continued)

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, 2017 were \$180,671 which consisted of \$149,680 from the Town and \$30,991 from the employees.

(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.

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2017

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

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

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

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

Annual required contribution	\$	8,247
Interest on net OPEB obligation		2,618
Adjustment to annual required contribution		(2,501)
<hr/>		
Annual pension cost		8,364
Contributions made		-
<hr/>		
Increase (decrease) in net OPEB obligation		8,364
Net OPEB obligation, beginning of year		65,445
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Net OPEB obligation, end of year	\$	73,809
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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, 2017 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 7,774	0%	\$ 73,809
2016	\$ 7,774	0%	\$ 65,445
2015	\$ 7,774	0%	\$ 57,671

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

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

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

The Town has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Contributions to pension plans in current fiscal year	\$	224,174
Benefit payments made and administrative expenses for LEOSSA		15,442
Differences between expected and actual experience		21,481
Net difference between projected and actual earnings		632,102
Change in assumptions		78,306
<hr/>		
Total	\$	971,505
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Deferred inflows of resources at year end is comprised of the following:

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable, less penalties (General Fund)	\$ -	\$ 201,095
Change in assumptions	7,668	-
Differences between expected and actual experience	40,063	-
Changes in proportion and differences between the employer contributions and proportionate share of contributions	35,292	-
<hr/>		
Total	\$ 83,023	\$ 201,095
<hr/>		

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

B. Liabilities (continued)

4. Risk Management

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

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, 2017, 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.

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

B. Liabilities (continued)

6. Long-Term Obligations (continued)

(a) Installment Purchase (continued)

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

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

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

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

In 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.

**Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2017**

NOTE 2 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

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

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.

In October 2016, the Town entered into an installment loan agreement for the purchase of equipment and vehicles. The agreement requires 5 annual installments of \$71,752 each, including principal and interest at 1.87% per annum.

The future minimum payments of the installment purchase as of June 30, 2017, including \$852,821 of interest in the governmental activities and \$1,960,991 of interest in business-type activities are as follows:

Year Ended June 30	Governmental		Business-type	
	Principal	Interest	Principal	Interest
2018	\$ 491,136	\$ 130,842	\$ 1,220,123	\$ 300,369
2019	417,443	116,489	1,221,335	274,595
2020	370,069	104,287	1,223,018	248,353
2021	358,978	93,426	1,136,999	222,080
2022	360,060	82,887	1,137,209	197,329
2023-2027	1,500,000	264,795	5,604,059	617,271
2028-2032	800,000	60,095	2,177,977	98,592
2033-2034	-	-	97,314	2,402
Total	\$ 4,297,686	\$ 852,821	\$ 13,818,034	\$ 1,960,991

At June 30, 2017, the Town of Beaufort had a legal debt margin of \$45,151,135.

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)

(b) Changes in Long-term Obligations

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchase	\$ 4,439,010	\$ 290,000	\$ 431,324	\$ 4,297,686	\$ 490,710
Compensated absences	136,561	18,467	3,836	151,192	151,192
Net pension liability (LGERS)	202,520	722,478	-	924,998	-
Net pension liability (LEOSSA)	360,778	23,177	-	383,955	-
Other postemployment benefits	52,610	6,793	-	59,403	-
Governmental activity long-term liabilities	\$ 5,191,479	\$ 1,060,915	\$ 435,160	\$ 5,817,234	\$ 641,902
Business-type activities:					
Installment purchase	\$ 14,984,831	\$ 50,000	\$ 1,216,797	\$ 13,818,034	\$ 1,219,662
Compensated absences	31,607	9,342	3,670	37,279	37,279
Net pension liability (LGERS)	43,554	174,749	-	218,303	-
Other postemployment benefits	12,835	1,571	-	14,406	-
Business-type long-term liabilities	\$ 15,072,827	\$ 235,662	\$ 1,220,467	\$ 14,088,022	\$ 1,256,941

7. Interfund Balances and Transfers

Transfers to/from other funds for the year ended June 30, 2017 were comprised of:

Transfer from General Fund to Fire District Fund for the Town's portion of Fire District expenditures	\$ 790,300
Transfer from General Fund to the Fire Station Fund for capital needs	\$ 57,311

Town of Beaufort
Notes to the Financial Statements
For the Year Ended June 30, 2017

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	\$ 3,548,092
<hr/>	
Less:	
Prepays	(7,350)
Stabilization by State Statute	(679,628)
Streets - Powell Bill	(184,353)
Appropriated Fund Balance in 2018 Budget	(202,215)
<hr/>	
Remaining Fund Balance	\$ 2,474,546
<hr/>	

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 CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$360,778.

Town of Beaufort
Other Postemployment Benefits - Retiree Health Plan
Required Supplementary Information

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)	UAAL as a % of Covered (c 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
2014	\$ -	0%
2015	-	0%
2016	-	0%
2017	-	0%

Town of Beaufort
Schedule of the Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years *

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beaufort's proportion of the net pension liability (asset) (%)	0.0549%	0.0548%	0.052%	0.051%
Beaufort's proportion of the net pension liability (asset) (\$)	\$ 1,143,301	\$ 246,074	\$ (306,668)	\$ 618,362
Beaufort's covered-employee payroll	\$ 2,967,679	\$ 2,836,171	2,718,474	2,729,254
Beaufort's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	38.53%	8.68%	-11.28%	22.66%
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	98.09%	102.64%	94.35%

As information becomes available, the Town will present the ten most current fiscal year data.

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

Town of Beaufort
Schedule of the Town of Beaufort's Contributions
Required Supplementary Information
Last Four Fiscal Years

Local Government Employees' Retirement Systems

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 224,174	\$ 196,906	\$ 195,733	\$ 189,874
Contributions in relation to the contractually required contribution	<u>224,174</u>	<u>196,906</u>	<u>195,733</u>	<u>189,874</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beaufort's covered-employee payroll	\$ 2,967,679	\$ 2,836,171	\$ 2,718,474	\$ 2,729,254
Contributions as a percentage of covered-employee payroll	7.55%	6.94%	7.20%	6.96%

As information becomes available, the Town will present the ten most current fiscal year data.

Town of Beaufort
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
June 30, 2017

	2017
Beginning Balance	\$ 376,220
Service Cost	19,064
Interest on total pension liability	13,155
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	(9,042)
Benefit payments	(15,442)
Other changes	-
Ending balances of the total pension liability	\$ 383,955

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

As information becomes available, the Town will present the ten most current fiscal year data.

Town of Beaufort
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
June 30, 2017

	<u>2017</u>
Total pension liability	\$ 383,955
Covered payroll	692,771
Total pension liability as a percentage of covered payroll	55.42%

Notes to the schedule:

The Town of Beaufort has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

As information becomes available, the Town will present the ten most current fiscal year data.

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 2,668,120	
Penalties and interest		15,503	
Total	2,630,500	2,683,623	53,123
Other taxes and licenses			
Local option sales tax		1,109,874	
ABC net revenue		133,587	
Total	1,098,000	1,243,461	145,461
Unrestricted intergovernmental			
Utility franchise tax		360,439	
Beer and wine tax		18,879	
Payments in lieu of tax		20,267	
Total	422,000	399,585	(22,415)
Restricted intergovernmental			
Other grants		93,411	
Powell Bill allocation		121,382	
Total	344,500	214,793	(129,707)
Permits and fees			
Building permits		238,747	
Court and parking fees		104,966	
Stormwater fees		133,286	
Garbage and recycle fees		479,395	
Total	863,850	956,394	92,544
Sales and services			
Rents		292,935	
Sales of cemetery lots		1,475	
Total	270,500	294,410	23,910
Investment earnings	7,400	12,944	5,544

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Miscellaneous			
Administrative reimbursement		30,000	
Donations		35,000	
Insurance reimbursement		161	
Miscellaneous		66,635	
Total	30,000	131,796	101,796
Total revenues	5,666,750	5,937,006	270,256
EXPENDITURES			
General government			
Governing board			
Governing board fees		16,901	
Professional fees		82,644	
Operating expenditures		33,836	
Total	143,250	133,381	9,869
Administration			
Salaries and benefits		275,747	
Operating expenditures		134,393	
Total	435,350	410,140	25,210
Finance			
Salaries and benefits		261,266	
Tax collection fees		59,755	
Operating expenditures		71,423	
Total	418,550	392,444	26,106
Total general government	997,150	935,965	61,185
Public safety			
Police			
Salaries and benefits		1,076,337	
Operating expenditures		169,299	
Capital outlay		67,346	
Total	1,355,650	1,312,982	42,668
Planning and inspections			
Salaries and benefits		261,195	
Operating expenditures		58,919	
Capital outlay		20,711	
Total	357,450	340,825	16,625
- 61 -			
Total public safety	1,713,100	1,653,807	59,293

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Public works			
Salaries and benefits		375,716	
Operating expenditures		258,525	
Street lights		127,546	
Street maintenance		95,707	
Capital outlay		37,790	
Total public works	1,134,485	895,284	239,201
Environmental protection			
Sanitation			
Salaries and benefits		110,550	
Operating expenditures		23,817	
Garbage and trash collection		190,185	
Capital outlay		142,476	
Total	608,850	467,028	141,822
Stormwater			
Salaries and benefits		15,047	
Operating expenditures		56,280	
Total	132,000	71,327	60,673
Total environmental protection	740,850	538,355	202,495
Cultural and recreation			
Operating expenditures		212,110	
Total cultural and recreation	333,629	212,110	121,519
Debt service			
Principal	347,200	345,942	1,258
Interest	141,550	141,380	170
Total debt service	488,750	487,322	1,428
Total expenditures	5,407,964	4,722,843	685,121
Revenues over (under) expenditures	\$ 258,786	\$ 1,214,163	\$ 955,377

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
OTHER FINANCING SOURCES (USES)			
Installment purchase obligation issued	290,000	290,000	-
Transfer to Fire Fund	(802,300)	(790,300)	12,000
Transfer to Capital Projects	(178,000)	(57,311)	120,689
Sale of capital assets	-	3,256	3,256
Total other financing sources (uses)	(690,300)	(554,355)	135,945
Fund balance appropriated	431,514	-	(431,514)
Net change in fund balance	\$ -	659,808	\$ 659,808
Fund balance, beginning		<u>2,888,284</u>	
Fund balance, ending		<u>\$ 3,548,092</u>	

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Fire Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes	\$ 317,625	\$ 317,625	\$ -
Sales tax	174,490	176,089	1,599
Restricted intergovernmental	28,515	28,515	-
Investment earnings	-	4,077	4,077
Miscellaneous	32,518	34,127	1,609
Total revenues	553,148	560,433	7,285
EXPENDITURES			
Public safety			
Salaries and benefits		1,033,111	
Operating expenditures		167,419	
Capital outlay		25,692	
Total	1,265,129	1,226,222	38,907
Debt service			
Principal		85,382	
Interest		4,936	
Total	90,319	90,318	1
Total expenditures	1,355,448	1,316,540	38,908
Revenues over (under) expenditures	(802,300)	(756,107)	46,193
OTHER FINANCING SOURCES (USES)			
Transfer to capital project	(20,000)	-	20,000
Transfer from General Fund	802,300	790,300	(12,000)
Total other financing sources (uses)	782,300	790,300	8,000
Fund balance appropriated	20,000	-	(20,000)
Net change in fund balance	\$ -	34,193	\$ 34,193
Fund balance, beginning		147,910	
Fund balance, ending		\$ 182,103	

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Capital Project Fund - Fire Station Project
From Inception and For the Year Ended June 30, 2017

	Project Authorization	Prior Year	Actual		Variance Positive (Negative)
			Current Year	Total to Date	
EXPENDITURES					
Engineering	\$ 176,000	\$ 1,414,107	\$ 2,058,607	\$ 3,472,714	\$ (3,296,714)
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	1,452,799	2,058,607	3,511,406	(35,406)
Revenues over (under) expenditures	(3,476,000)	(1,452,799)	(2,058,607)	(3,511,406)	(35,406)
OTHER FINANCING SOURCES (USES)					
Transfer from General Fund	376,000	376,000	57,311	433,311	57,311
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	57,311	3,513,311	37,311
Revenues and other financing sources over (under) expenditures	\$ -	\$ 2,003,201	\$ (2,001,296)	\$ 1,905	\$ 1,905
Fund balance, beginning			<u>2,003,201</u>		
Fund balance, ending			<u>\$ 1,905</u>		

Town of Beaufort
Schedule of Revenues, Expenditures and Changes
In Fund Balances – Budget and Actual
Capital Project Fund - Community Improvement Project
From Inception and For the Year Ended June 30, 2017

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Year	Current Year	Total to Date	
EXPENDITURES					
Community Improvement	\$ 2,000,000	\$ -	\$ 6,750	\$ 6,750	\$ 1,993,250
Total expenditures	2,000,000	-	6,750	6,750	1,993,250
Revenues over (under) expenditures	(2,000,000)	-	(6,750)	(6,750)	1,993,250
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	\$ (6,750)	\$ 1,993,250	\$ 1,993,250
Fund balance, beginning			2,000,000		
Fund balance, ending			\$ 1,993,250		

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Operating revenues			
Sewer service charges		\$ 2,219,654	
Water service charges		902,581	
Water and sewer tap fees		99,475	
Water connection fees		22,625	
Total	\$ 3,087,600	3,244,335	\$ 156,735
Nonoperating revenues			
Investment earnings		11,317	
Capacity use fees		115,300	
Capital contribution		36,800	
Other		58,475	
Total	208,300	221,892	13,592
Total revenues	3,295,900	3,466,227	170,327
EXPENDITURES			
Water operations			
Salaries and benefits		218,933	
Administrative expenditures		15,000	
Compliance testing		8,330	
Contract services		63,128	
Permits		5,915	
Repairs and maintenance		33,652	
Supplies and maintenance		108,953	
Telephone and utilities		45,993	
Vehicle expense		4,185	
County water purchase		30,550	
Other		27,686	
Total	710,752	562,325	148,427
Sewer operations			
Salaries and benefits		186,150	
Contract services		41,054	
Equipment lease		11,398	
Insurance		5,295	
Permits		1,310	
Repairs and maintenance		34,579	
Supplies and materials		14,599	
Telephone and utilities		46,865	
Vehicle expense		4,320	
Other		15,073	
Total	396,270	360,643	35,627

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Wastewater treatment plant			
Salaries and benefits		416,063	
Administrative expenditures		15,000	
Compliance testing		7,681	
Contract services		33,421	
Insurance		38,711	
Permits		8,263	
Repairs and maintenance		46,852	
Supplies and materials		66,601	
Telephone and utilities		133,393	
Vehicle expense		3,266	
Other		5,847	
Total	781,775	775,098	6,677
Capital outlay	100,366	67,272	33,094
Debt service			
Principal		1,216,797	
Interest		316,115	
Total	1,548,837	1,532,912	15,925
Total expenditures	3,538,000	3,298,250	199,979
Revenues over (under) expenditures	(242,100)	167,977	410,077
OTHER FINANCING SOURCES (USES)			
Transfer from General Fund	18,000	-	(18,000)
Installment purchase obligation issued	50,000	50,000	-
Sale of capital assets	85,000	85,000	-
Total other financing sources	153,000	135,000	(18,000)
Fund balance appropriated	89,100	-	(89,100)
Revenues and other sources over (under) expenditures and other uses	\$ -	302,977	\$ 302,977

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Utility Fund
For the Year Ended June 30, 2017

	Actual
Reconciliation from budgetary basis to full accrual:	
Reconciling items:	
Capital outlay	67,272
Depreciation	(904,972)
Increase in compensated absences	(5,672)
Increase in accrued OPEB liability	(1,571)
Debt principal	1,216,797
Increase in deferred outflows - pensions	142,547
Increase in net pension liability	(174,749)
Decrease in deferred inflows - pensions	11,550
Installment purchase obligation issued	(50,000)
Total reconciling items	301,202
Change in net position	\$ 604,179

Town of Beaufort
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Water Meter Project Fund
From Inception and For the Year Ended June 30, 2017

	Project Authorization	Prior Year	Actual		Variance Positive (Negative)
			Current Year	Total to Date	
EXPENDITURES					
Construction	\$ 877,000	\$ 792,750	\$ 61,090	\$ 853,840	\$ 23,160
Total expenditures	877,000	792,750	61,090	853,840	23,160
Revenues over (under) expenditures	(877,000)	(792,750)	(61,090)	(853,840)	23,160
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	\$ (61,090)	\$ 23,160	\$ 23,160
Fund balance, beginning			84,250		
Fund balance, ending			\$ 23,160		

Town of Beaufort
Schedule of Ad Valorem Taxes Receivable
June 30, 2017

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Collections and Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 2,754,475	\$ 2,619,412	\$ 135,063
2015-2016	69,663	-	33,135	36,528
2014-2015	27,547	-	8,111	19,436
2013-2014	11,229	2,855	1,885	12,199
2012-2013	9,019	25	2,068	6,976
2011-2012	6,017	883	2,020	4,880
2010-2011	3,387	1,291	1,085	3,593
2009-2010	1,632	582	199	2,015
2008-2009	955	1,087	90	1,952
2007-2008	389	-	280	109
2006-2007	236	326	158	404
2005-2006	279	1,391	-	1,670
	<u>\$ 130,353</u>	<u>\$ 2,762,915</u>	<u>\$ 2,668,443</u>	<u>224,825</u>
				<u>(23,730)</u>
				<u>\$ 201,095</u>
<u>Reconciliation with revenues:</u>				
				\$ 2,683,623
				(15,503)
				<u>323</u>
				<u>\$ 2,668,443</u>

**Town of Beaufort
Analysis of Current Tax Levy
Town-wide Levy
For the Year Ended June 30, 2017**

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 796,504,173	0.3475	\$ 2,767,852	\$ 2,651,920	\$ 115,932
Penalties	-		6,321	6,321	-
Abatements	(5,668,489)		(19,698)	(19,698)	-
Total property valuation	<u>\$ 790,835,684</u>				
Net levy			\$ 2,754,475	\$ 2,638,543	\$ 115,932
Uncollected taxes at June 30, 2017			135,063	135,063	-
Current year's tax collected			<u>\$ 2,619,412</u>	<u>\$ 2,503,480</u>	<u>\$ 115,932</u>
Current levy collection percentage			<u>95.10%</u>	<u>94.88%</u>	<u>100.00%</u>



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Independent Auditors' 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 accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Beaufort, North Carolina as of and for the year ended June 30, 2017, 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 January 19, 2018.

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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Carly Riggs & Ingram, L.L.C.

New Bern, North Carolina
January 19, 2018