

TOWN OF BEAUFORT, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2011

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FINANCIAL SECTION

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Beaufort, North Carolina's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of June 30, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2012, on our consideration of the Town of Beaufort, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purposes of forming an opinion on the financial statements that collectively comprise the Town of Beaufort, North Carolina's basic financial statements. The individual fund statements, budgetary schedules and other schedules, as well as the accompanying schedule of expenditures of federal and State awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund statements, budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pittard Perry & Crone, Inc.

New Bern, North Carolina
February 13, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011

As management of the Town of Beaufort, we offer readers of the Town of Beaufort's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2011. We encourage readers to use the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

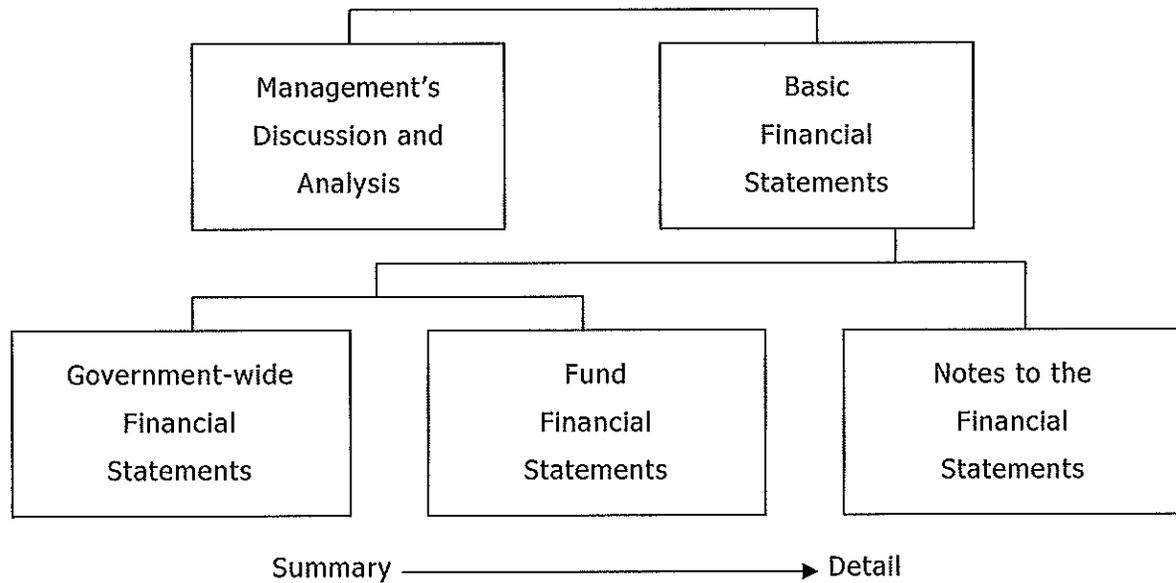
- The assets of the Town of Beaufort exceeded its liabilities at the close of the fiscal year by \$22,715,137. This amount was comprised of net assets in the governmental funds of \$5,275,873 and \$17,439,264 in business-type funds.
- The government's total net assets decreased by \$60,090, which consisted of a decrease of governmental funds of \$536,192, and an increase in business-type funds of \$476,102.
- The increase in business-type fund net assets is due primarily to rate increases in recent years in anticipation of debt service payments related to major sewer and waste water treatment plant renovations.
- As of the close of the current fiscal year, the Town of Beaufort's governmental funds reported combined ending fund balances of \$3,533,431, a decrease of \$702,561 in comparison with the prior year. Approximately 42% of this total amount, or \$1,478,129, is available for spending at the government's discretion (unassigned fund balance).
- In June 2011, the Town purchased the former U.S. Post Office building on Front Street and subsequently made renovations to it and relocated the administrative offices of the Town to the new building in December. Acquisition costs for this project through June 30, 2011 were \$1,453,658, and a bank loan for \$1,500,000 was obtained.
- The Town completed sewer and waste water treatment plant renovations projects during the year that totaled \$19,074,279.
- Long-term debt in the governmental funds increased by a net amount of \$1,467,813 due primarily to the addition of the loan for the new building. Long-term debt in the enterprise funds decreased by a net amount of \$226,025 due primarily to a combination of additional loans of \$1,199,424 and principal payments of \$1,439,477.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories; 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 the North Carolina 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 Assets and the Statement of Activities, and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Beaufort adopts an annual budget for its General Fund, Fire Fund, Water and Sewer Funds, as required by the North Carolina 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Beaufort has one of two kinds of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The 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 Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes begin on page 24.

Town of Beaufort's Net Assets

Figure 2

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 2,462,070	\$ 4,588,875	\$ 1,948,956	\$ 2,204,644	\$ 4,411,026	\$ 9,119,439
Restricted assets	1,433,012	-	1,995,868	1,947,076	3,428,880	1,947,076
Capital assets	<u>3,457,875</u>	<u>1,878,595</u>	<u>32,560,769</u>	<u>32,500,820</u>	<u>36,018,644</u>	<u>34,379,415</u>
Total assets	<u>7,352,957</u>	<u>6,467,470</u>	<u>36,505,593</u>	<u>36,652,540</u>	<u>43,858,550</u>	<u>45,445,930</u>
Current liabilities	463,074	488,807	1,376,591	2,176,289	1,839,665	2,665,096
Long-term liabilities	<u>1,614,010</u>	<u>166,598</u>	<u>17,689,738</u>	<u>17,375,849</u>	<u>19,303,748</u>	<u>17,542,447</u>
Total liabilities	<u>2,077,084</u>	<u>655,405</u>	<u>19,066,329</u>	<u>19,552,138</u>	<u>21,143,413</u>	<u>20,207,543</u>
Net assets:						
Invested in capital assets net of related debt	1,802,652	1,664,569	13,793,754	13,630,992	15,596,406	15,295,561
Restricted	1,805,302	1,009,866	-	1,947,076	1,805,302	2,956,942
Unrestricted	<u>1,667,919</u>	<u>3,137,630</u>	<u>3,645,510</u>	<u>1,522,334</u>	<u>5,313,429</u>	<u>4,659,964</u>
Total net assets	<u>\$ 5,275,873</u>	<u>\$ 5,812,065</u>	<u>\$ 17,439,264</u>	<u>\$ 17,100,402</u>	<u>\$ 22,715,137</u>	<u>\$ 22,912,467</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Beaufort exceeded liabilities by \$22,715,137 as of June 30, 2011. The Town's net assets decreased by \$60,090 for the fiscal year ended June 30, 2011.

Approximately 69% or \$15,596,406, of net assets reflect the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less related debt still outstanding that was issued to acquire or build those items. 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 investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Of the Town of Beaufort's net assets at June 30, 2011, \$1,805,302, or 8%, represents resources that are subject to external restrictions on how they may be used. The unrestricted balance at year end was \$5,313,429.

Town of Beaufort's Changes in Net Assets

Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Program revenues:						
Charges for services	\$ 279,147	\$ 300,330	\$ 2,992,189	\$ 2,843,079	\$ 3,271,336	\$ 3,143,409
Operating grants	116,459	195,508	-	-	116,459	195,508
Capital grants	179,334	-	50,000	3,152,372	229,334	3,152,372
General revenues						
Property taxes	2,146,932	2,136,180	-	-	2,146,932	2,136,180
Other taxes	1,339,289	1,214,654	-	-	1,339,289	1,214,654
Other	187,982	289,026	115,099	247,771	303,081	536,797
Total revenues	<u>4,249,143</u>	<u>4,135,698</u>	<u>3,157,288</u>	<u>6,243,222</u>	<u>7,406,431</u>	<u>10,378,920</u>
Expenses:						
General government	793,872	726,323	-	-	793,872	726,323
Public safety	2,393,655	2,263,401	-	-	2,393,655	2,263,401
Transportation	1,034,919	883,805	-	-	1,034,919	883,805
Environmental protection	426,153	406,579	-	-	426,153	406,579
Culture and recreation	130,512	72,566	-	-	130,512	72,566
Interest on long-term debt	6,224	814	-	-	6,224	814
Water and sewer	-	-	2,681,186	1,993,458	2,681,186	1,993,458
Total expenses	<u>4,785,335</u>	<u>4,353,488</u>	<u>2,681,186</u>	<u>1,993,458</u>	<u>7,466,521</u>	<u>6,346,946</u>
Change in net assets	(536,192)	(217,790)	476,102	4,249,764	(60,090)	4,031,974
Prior period adjustment	-	-	(137,240)	-	(137,240)	-
Net assets, July 1	<u>5,812,065</u>	<u>6,029,855</u>	<u>17,100,402</u>	<u>12,850,638</u>	<u>22,912,467</u>	<u>18,880,493</u>
Net assets, June 30	<u>\$ 5,275,873</u>	<u>\$ 5,812,065</u>	<u>\$ 17,439,264</u>	<u>\$ 17,100,402</u>	<u>\$ 22,715,137</u>	<u>\$ 22,912,467</u>

Governmental activities. Governmental activities resulted in a decrease of the Town's net assets by \$536,192, due primarily to the continued downturn in the world economy and the impact on items such as sales tax, reduced development, and other factors. Management of the Town continues to monitor spending in an effort to keep increases modest.

Business-type activities: Business-type activities increased the Town's net assets by \$476,102. Charges for water and sewer services increased for the year, but expenses increased by \$687,728.

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. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the primary operating fund of the Town of Beaufort. At the end of the current fiscal year, total fund balance of the General Fund was \$3,068,784, of which \$1,517,355 was unassigned and available for use by the Board of Commissioners. This unreserved amount represents 40% of total General Fund expenditures for the year.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget three times. 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. The Town did not make any budget amendments during the year ended June 30, 2011.

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 assets of the Water and Sewer Funds at the end of the fiscal year amounted to \$3,645,510. As mentioned earlier, sewer rates have been adjusted in recent years to better reflect the costs of operating the water and sewer systems and the increased debt service that will result from the sewer projects.

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, 2011, totaled \$36,018,644 (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 Note 1 and Note 3.

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

Figure 4

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Land	\$ 349,695	\$ 250,979	\$ 1,063,615	\$ 1,063,615	\$ 1,413,310	\$ 1,314,594
Construction in progress	1,562,818	-	1,562,064	19,721,096	3,124,882	19,721,096
Equipment	167,139	157,730	250,222	297,180	417,361	454,910
Vehicles	441,654	488,383	53,030	64,365	494,684	552,748
Buildings & Improvements	171,240	182,263	324,845	885,759	496,085	1,068,022
Infrastructure	765,329	799,240	29,306,993	10,468,805	30,072,322	11,268,045
Total assets	<u>\$ 3,457,875</u>	<u>\$ 1,878,595</u>	<u>\$ 32,560,769</u>	<u>\$ 32,500,820</u>	<u>\$ 36,018,644</u>	<u>\$ 34,379,415</u>

Long-term Debt. Following is a summary of outstanding long-term obligations as of June 30, 2011 for the Town of Beaufort. General obligation bonds are debt backed by the full faith and credit of the Town. More information about long-term debt is presented in Note 1 and Note 3.

Town of Beaufort's Outstanding Debt General Obligation and Revenue Bonds

Figure 5

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Installment loans	<u>\$ 1,655,223</u>	<u>\$ 214,026</u>	<u>\$ 18,767,015</u>	<u>\$ 19,007,068</u>	<u>\$ 20,422,238</u>	<u>\$ 19,221,094</u>

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 \$58,646,780.

Economic Factors and Next Year's Budgets and Rates

The Town of Beaufort continues to face many fiscal challenges. The Town wrestles with the ability to maintain quality level of services to the community when revenue sources are stagnant at best and dwindling in several areas. The Town has infrastructure and capital program needs that have to be placed on hold during these difficult economic times. The Town is mindful of the taxes and fees that the citizens already pay and does the best it can to minimize any additional burden on the taxpayer.

The projected revenues for fiscal year 2012 were conservatively estimated, and a property tax collection rate of 95% was utilized. This collection rate is slightly slower (2%) than past revenue estimate methodology. The General Fund revenues were estimated as being generally at a no-increase level from the prior fiscal year. The Town used \$250,000 of the General Fund fund balance to balance the fiscal year 2012 General Fund Budget.

The Town increased solid waste collection fees by \$3.50 monthly per customer for fiscal year 2012. The tax rate was increased to .26 per \$100 for fiscal year 2012.

In preparation of the fiscal year 2012 budget, the Town paid particular attention to the expenditure requests and made appropriate decisions in the funding of certain line items so as to assure the maintaining of core Town services at an existing or acceptable level. No salary adjustments were made to employee compensation, and employee benefit programs were maintained. No new initiatives, programs, or employees were funded in the fiscal year 2012 budget.

In looking to future Town budgets, the Town is particularly concerned with the overall status of the State and National economy and the trickle down effects that brings to the local level. Although the Town sees some increase in tourist activity the longer term projection still indicates a slow recovery at best for this important component of the local economy. The Town did declare a "moratorium" in the second half of FY 2011 on utility impact fees that appear to have generated some activity in the construction of new dwellings within the Town. Through this initiative the Town is adding to the local tax base and providing new utility customers in an otherwise stagnant building market. The downside of this initiative is not collecting utility impact fees. This program is anticipated to continue at least through the first half of FY 2012.

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, O. K. Hogan, P.O. Box 390, Beaufort, NC 28516, (252) 728-2141.

BASIC FINANCIAL STATEMENTS

Town of Beaufort, North Carolina
STATEMENT OF NET ASSETS
June 30, 2011

Exhibit 1

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets			
Cash and investments	\$ 1,832,186	\$ 1,645,439	\$ 3,477,625
Ad valorem taxes receivable (net)	145,486	-	145,486
Accounts receivable	484,398	303,517	787,915
Restricted cash and investments	<u>1,433,012</u>	<u>1,995,868</u>	<u>3,428,880</u>
Total current assets	<u>3,895,082</u>	<u>3,944,824</u>	<u>7,839,906</u>
Capital assets			
Construction in progress	1,562,818	1,562,064	3,124,882
Land	349,695	1,063,615	1,413,310
Capital assets, net of depreciation	<u>1,545,362</u>	<u>29,935,090</u>	<u>31,480,452</u>
Total capital assets	<u>3,457,875</u>	<u>32,560,769</u>	<u>36,018,644</u>
Total assets	<u>\$ 7,352,957</u>	<u>\$ 36,505,593</u>	<u>\$ 43,858,550</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 216,165	\$ 119,121	\$ 335,286
Customer deposits	-	138,092	138,092
Accrued vacation payable	186,257	37,199	223,456
Current portion of long-term liabilities	<u>60,652</u>	<u>1,082,179</u>	<u>1,142,831</u>
Total current liabilities	<u>463,074</u>	<u>1,376,591</u>	<u>1,839,665</u>
Long-term liabilities:			
Due in more than one year	<u>1,614,010</u>	<u>17,689,738</u>	<u>19,303,748</u>
Total liabilities	<u>2,077,084</u>	<u>19,066,329</u>	<u>21,143,413</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,802,652	13,793,754	15,596,406
Restricted for:			
Stabilization by State Statue	484,398	-	484,398
Streets	533,759	-	533,759
Economic Physical Development	383,200	-	383,200
Capital Projects	403,945	-	403,945
Unrestricted	<u>1,667,919</u>	<u>3,645,510</u>	<u>5,313,429</u>
Total net assets	<u>\$ 5,275,873</u>	<u>\$ 17,439,264</u>	<u>\$ 22,715,137</u>

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 793,872	\$ -	\$ -	\$ -
Public safety	2,393,655	76,307	1,586	98,716
Transportation	1,034,919	-	114,873	-
Environmental protection	426,153	202,840	-	80,618
Cultural and recreation	130,512	-	-	-
Interest on long-term debt	<u>6,224</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>4,785,335</u>	<u>279,147</u>	<u>116,459</u>	<u>179,334</u>
Business-type activities:				
Water	651,303	857,199	-	-
Sewer	<u>2,029,883</u>	<u>2,134,990</u>	<u>-</u>	<u>50,000</u>
Total business-type activities	<u>2,681,186</u>	<u>2,992,189</u>	<u>-</u>	<u>50,000</u>
Total primary government	<u>\$ 7,466,521</u>	<u>\$ 3,271,336</u>	<u>\$ 116,459</u>	<u>\$ 229,334</u>
General revenues:				
Taxes:				
Property taxes, levied for general purpose				
Other taxes				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets, beginning as previously reported				
Prior period adjustment				
Net assets, beginning as restated				
Net assets, ending				

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
(\$ 793,872)	\$ -	(\$ 793,872)
(2,217,046)	-	(2,217,046)
(920,046)	-	(920,046)
(142,695)	-	(142,695)
(130,512)	-	(130,512)
(6,224)	-	(6,224)
<u>(4,210,395)</u>	<u>-</u>	<u>(4,210,395)</u>
-	205,896	205,896
<u>-</u>	<u>155,107</u>	<u>155,107</u>
-	361,003	361,003
<u>(4,210,395)</u>	<u>361,003</u>	<u>(3,849,392)</u>
2,146,932	-	2,146,932
1,339,289	-	1,339,289
10,317	11,788	22,105
<u>177,665</u>	<u>103,311</u>	<u>280,976</u>
<u>3,674,203</u>	<u>115,099</u>	<u>3,789,302</u>
(536,192)	476,102	(60,090)
5,812,065	17,100,402	22,912,467
-	(137,240)	(137,240)
<u>5,812,065</u>	<u>16,963,162</u>	<u>22,775,227</u>
<u>\$ 5,275,873</u>	<u>\$ 17,439,264</u>	<u>\$ 22,715,137</u>

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2011

Exhibit 3

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Fire District Fund	Town Hall Project		
ASSETS					
Cash and investments	\$ 1,832,186	\$ -	\$ -	\$ -	\$ 1,832,186
Restricted cash	916,959	-	458,435	57,618	1,433,012
Due from other funds	54,490	-	-	-	54,490
Ad valorem taxes receivable (net)	145,486	-	-	-	145,486
Accounts receivable	384,470	99,928	-	-	484,398
Total assets	\$ 3,333,591	\$ 99,928	\$ 458,435	\$ 57,618	\$ 3,949,572
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 119,321	\$ 10,594	\$ -	\$ 86,250	\$ 216,165
Due to other funds	-	-	54,490	-	54,490
Deferred revenues	145,486	-	-	-	145,486
Total liabilities	264,807	10,594	54,490	86,250	416,141
Fund balances:					
Restricted					
Stabilization by State Statue	384,470	99,928	-	-	484,398
Streets	533,759	-	-	-	533,759
Economic Physical Development	383,200	-	-	-	383,200
Capital Projects	-	-	403,945	-	403,945
Assigned					
Subsequent year's expenditures	250,000	-	-	-	250,000
Unassigned	1,517,355	(10,594)	-	(28,632)	1,478,129
Total fund balances	3,068,784	89,334	403,945	(28,632)	3,533,431
Total liabilities and fund balances	\$ 3,333,591	\$ 99,928	\$ 458,435	\$ 57,618	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	3,457,875
Liabilities for earned but deferred revenues in fund statements	145,486
Some liabilities, including notes payable, accrued interest and accrued vacation are not due and payable in the current period and therefore are not reported in the fund statements	(1,860,919)
Net assets of governmental activities	\$ 5,275,873

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 4

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Fire District Fund	Town Hall Project		
REVENUES					
Ad valorem taxes	\$ 2,092,030	\$ 265,762	\$ -	\$ -	\$ 2,357,792
Other taxes and licenses	705,960	59,951	-	-	765,911
Unrestricted intergovernmental	307,616	-	-	-	307,616
Restricted intergovernmental	116,459	98,716	-	80,618	295,793
Permits and fees	279,147	-	-	-	279,147
Sales and service	147,558	-	-	-	147,558
Investment earnings	10,242	75	-	-	10,317
Other	<u>28,541</u>	<u>1,564</u>	<u>-</u>	<u>-</u>	<u>30,105</u>
Total revenues	<u>3,687,553</u>	<u>426,068</u>	<u>-</u>	<u>80,618</u>	<u>4,194,239</u>
EXPENDITURES					
Current:					
General government	805,375	-	1,453,568	-	2,258,943
Public safety	1,497,783	948,011	-	-	2,445,794
Public works	994,013	-	-	-	994,013
Environmental protection	425,508	-	-	109,250	534,758
Culture and recreation	98,266	-	-	-	98,266
Debt service:					
Principal	-	58,803	-	-	58,803
Interest	-	<u>6,223</u>	<u>-</u>	<u>-</u>	<u>6,223</u>
Total expenditures	<u>3,820,945</u>	<u>1,013,037</u>	<u>1,453,568</u>	<u>109,250</u>	<u>6,396,800</u>
Excess (deficiency) of revenues over expenditures	(<u>133,392</u>)	(<u>586,969</u>)	(<u>1,453,568</u>)	(<u>28,632</u>)	(<u>2,202,561</u>)
OTHER FINANCING SOURCES (USES)					
Loan proceeds	-	-	1,500,000	-	1,500,000
Transfer to other funds	(787,470)	-	-	-	(787,470)
Transfers from other funds	<u>-</u>	<u>429,957</u>	<u>357,513</u>	<u>-</u>	<u>787,470</u>
Total other financing sources (uses)	(<u>787,470</u>)	<u>429,957</u>	<u>1,857,513</u>	<u>-</u>	<u>1,500,000</u>
Net change in fund balance	(<u>920,862</u>)	(<u>157,012</u>)	<u>403,945</u>	(<u>28,632</u>)	(<u>702,561</u>)
Fund balance, beginning	<u>3,989,646</u>	<u>246,346</u>	<u>-</u>	<u>-</u>	<u>4,235,992</u>
Fund balance, ending	<u>\$ 3,068,784</u>	<u>\$ 89,334</u>	<u>\$ 403,945</u>	(<u>\$ 28,632</u>)	<u>\$ 3,533,431</u>

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

Exhibit 4 (continued)

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances – total governmental funds	(\$ 702,561)
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are 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	1,579,280
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund statements:

Change in deferred revenues	54,902
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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:

Change in accrued vacation	(18,552)
Other post-employment benefits	(8,064)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	(1,441,197)
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Total changes in net assets of governmental activities	(<u>\$ 536,192</u>)
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The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUND
For the Year Ended June 30, 2011

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
REVENUES				
Ad valorem taxes	\$ 2,312,000	\$ 2,312,000	\$ 2,092,030	(\$ 219,970)
Other taxes and licenses	688,000	688,000	705,960	17,960
Unrestricted intergovernmental	326,500	326,500	307,616	(18,884)
Restricted intergovernmental	154,890	154,890	116,459	(38,431)
Permits and fees	317,250	317,250	279,147	(38,103)
Sales and service	136,000	136,000	147,558	11,558
Investment earnings	75,000	75,000	10,242	(64,758)
Other	42,500	42,500	28,541	(13,959)
Total revenues	<u>4,052,140</u>	<u>4,052,140</u>	<u>3,687,553</u>	<u>(364,587)</u>
EXPENDITURES				
Current:				
General government	774,990	774,990	805,375	(30,385)
Public safety	1,466,975	1,466,975	1,497,783	(30,808)
Public works	1,203,375	932,646	994,013	(61,367)
Environmental protection	190,000	460,729	425,508	35,221
Culture and recreation	56,800	56,800	98,266	(41,466)
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>3,692,140</u>	<u>3,692,140</u>	<u>3,820,945</u>	<u>(128,805)</u>
Revenues over (under) expenditures	<u>360,000</u>	<u>360,000</u>	<u>(133,392)</u>	<u>(493,392)</u>
Other financial sources (uses):				
Transfers to other funds	(660,000)	(660,000)	(787,470)	(127,470)
Transfers from other funds	-	-	-	-
Total other financing sources (uses)	<u>(660,000)</u>	<u>(660,000)</u>	<u>(787,470)</u>	<u>(127,470)</u>
Revenues and other sources over (under) expenditures and other uses	<u>(300,000)</u>	<u>(300,000)</u>	<u>(920,862)</u>	<u>(620,862)</u>
Appropriated fund balance	<u>300,000</u>	<u>300,000</u>	<u>-</u>	<u>(300,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(920,862)</u>	<u>(\$ 920,862)</u>
Fund balance, beginning			<u>3,989,646</u>	
Fund balance, ending			<u>\$ 3,068,784</u>	

Fire Fund

Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
\$ 248,000	\$ 248,000	\$ 265,762	\$ 17,762
75,000	75,000	59,951	(15,049)
-	-	-	-
-	-	98,716	98,716
-	-	-	-
-	-	-	-
3,800	3,800	75	(3,725)
500	500	1,564	1,064
<u>327,300</u>	<u>327,300</u>	<u>426,068</u>	<u>98,768</u>
-	-	-	-
922,274	922,274	948,011	(25,737)
-	-	-	-
-	-	-	-
-	-	-	-
58,803	58,803	58,803	-
6,223	6,223	6,223	-
<u>987,300</u>	<u>987,300</u>	<u>1,013,037</u>	<u>(25,737)</u>
(660,000)	(660,000)	(586,969)	73,031
-	-	-	-
<u>660,000</u>	<u>660,000</u>	<u>429,957</u>	<u>(230,043)</u>
<u>660,000</u>	<u>660,000</u>	<u>(157,012)</u>	<u>(230,043)</u>
-	-	(157,012)	(157,012)
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>(157,012)</u>	<u>(\$ 157,012)</u>
		<u>246,346</u>	
		<u>\$ 89,334</u>	

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

Exhibit 6

	Major Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and investments	\$ 1,093,032	\$ 552,407	\$ 1,645,439
Accounts receivable	78,502	225,015	303,517
Restricted cash and cash equivalents	<u>1,122,715</u>	<u>873,153</u>	<u>1,995,868</u>
Total current assets	<u>2,294,249</u>	<u>1,650,575</u>	<u>3,944,824</u>
Capital assets:			
Construction in progress	1,562,064	-	1,562,064
Land	817,987	245,628	1,063,615
Capital assets, net of depreciation	<u>887,396</u>	<u>29,047,694</u>	<u>29,935,090</u>
Total capital assets	<u>3,267,447</u>	<u>29,293,322</u>	<u>32,560,769</u>
Total assets	<u>\$ 5,561,696</u>	<u>\$ 30,943,897</u>	<u>\$ 36,505,593</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 36,496	\$ 82,625	\$ 119,121
Customer deposits	138,092	-	138,092
Accrued vacation	7,733	29,466	37,199
Current portion of long-term debt	<u>52,654</u>	<u>1,029,525</u>	<u>1,082,179</u>
Total current liabilities	<u>234,975</u>	<u>1,141,616</u>	<u>1,376,591</u>
Non-current liabilities:			
Long-term debt	580,654	17,104,182	17,684,836
Other post-employment benefits	<u>1,152</u>	<u>3,750</u>	<u>4,902</u>
Total non-current liabilities	<u>581,806</u>	<u>17,107,932</u>	<u>17,689,738</u>
Total liabilities	<u>816,781</u>	<u>18,249,548</u>	<u>19,066,329</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,634,139	11,159,615	13,793,754
Unrestricted	<u>2,110,776</u>	<u>1,534,734</u>	<u>3,645,510</u>
Total net assets	<u>\$ 4,744,915</u>	<u>\$ 12,694,349</u>	<u>\$ 17,439,264</u>

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

Exhibit 7

	Major Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 824,589	\$ 2,133,490	\$ 2,958,079
Tap fees	5,630	1,500	7,130
Connection fees	<u>26,980</u>	<u>-</u>	<u>26,980</u>
Total operating revenues	<u>857,199</u>	<u>2,134,990</u>	<u>2,992,189</u>
OPERATING EXPENSES			
Water treatment and distribution	551,660	-	551,660
Waste collection and treatment	-	807,208	807,208
Depreciation	<u>79,047</u>	<u>775,264</u>	<u>854,311</u>
Total operating expenses	<u>630,707</u>	<u>1,582,472</u>	<u>2,213,179</u>
Operating income (loss)	<u>226,492</u>	<u>552,518</u>	<u>779,010</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest earned on investments	7,638	4,150	11,788
Impact fees	25,100	18,400	43,500
Other non-operating revenues	56,257	3,554	59,811
Interest on long-term debt	<u>(20,596)</u>	<u>(447,411)</u>	<u>(468,007)</u>
Total non-operating revenue (expenses)	<u>68,399</u>	<u>(421,307)</u>	<u>(352,908)</u>
Income (loss) before contributions and transfers	294,891	131,211	426,102
Capital contributions	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Change in net assets	294,891	181,211	476,102
Total net assets, beginning as previously reported	4,587,264	12,513,138	17,100,402
Prior period adjustment	<u>(137,240)</u>	<u>-</u>	<u>(137,240)</u>
Total net assets, beginning as restated	<u>4,450,024</u>	<u>12,513,138</u>	<u>16,963,162</u>
Total net assets, ending	<u>\$ 4,744,915</u>	<u>\$ 12,694,349</u>	<u>\$ 17,439,264</u>

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2011

Exhibit 8

	Major Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
Cash flows from operating activities			
Cash received from customers	\$ 1,026,612	\$ 2,126,139	\$ 3,152,751
Cash paid for goods and services	(404,320)	(689,231)	(1,093,551)
Cash paid to or on behalf of employees	(209,429)	(443,857)	(653,286)
Customer deposits received	17,033	-	17,033
Customer deposits returned	(12,230)	-	(12,230)
Net cash provided (used) by operating activities	<u>417,666</u>	<u>993,051</u>	<u>1,410,717</u>
Cash flows from noncapital financing activities			
Capital contributions	-	50,000	50,000
Cash flows from capital and related financing activities			
Impact fees	25,100	18,400	43,500
Acquisition of capital assets	(387,378)	(540,822)	(928,200)
Loss on disposal of assets	-	14,098	14,098
Installment notes issued	-	1,199,424	1,199,424
Principal paid on bonds	(318,319)	(1,121,158)	(1,439,477)
Interest paid on bonds	(20,586)	(447,411)	(467,997)
Other receipts	56,259	3,554	59,813
Net cash provided (used) by capital and financing activities	<u>(644,924)</u>	<u>(873,915)</u>	<u>(1,518,839)</u>
Cash flows from investing activities			
Interest earned	7,638	4,150	11,788
Net increase (decrease) in cash and cash equivalents	(219,620)	173,286	(46,334)
Balances, beginning of year	2,435,367	1,252,274	3,687,641
Balances, ending of year	<u>\$ 2,215,747</u>	<u>\$ 1,425,560</u>	<u>\$ 3,641,307</u>
Reconciliation of operating income to net cash provided by operations			
Operating income	\$ 226,492	\$ 552,518	\$ 779,010
Adjustments to reconcile income to cash provided by operations:			
Depreciation	79,047	775,264	854,311
(Increase) decrease in accounts receivable	169,413	(8,851)	160,562
Increase (decrease) in accounts payable	(64,657)	(337,340)	(401,997)
Increase (decrease) in accrued vacation	2,096	9,778	11,874
Increase (decrease) in customer deposits	4,803	-	4,803
Increase (decrease) in OPEB liability	472	1,682	2,154
Total	<u>191,174</u>	<u>440,533</u>	<u>631,707</u>
Net cash provided by operating activities	<u>\$ 417,666</u>	<u>\$ 993,051</u>	<u>\$ 1,410,717</u>

The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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

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

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

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation-Fund Accounting (continued)

The Town reports the following major governmental funds:

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

Town Hall Project Fund – The Town Hall Project Fund is a capital project fund that is used to account for the purchase and renovation of a new town hall.

The Town reports the following non-major governmental funds:

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

The Town reports the following major enterprise funds:

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

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

Capital Project Fund – These funds are used to account for specific capital projects and related loan activity.

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 recorded in the fiscal year in which all eligibility requirements have been satisfied.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Carteret County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Beaufort. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Carteret County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected vehicle taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue, and Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinaries are adopted for the Town Hall Capital Project Fund, the Highway 70 Utility Relocation Capital Project Fund and the Enterprise Capital Project Fund. 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 \$2,500. 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, Liabilities and Fund Equity

1. Deposits and Investments

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Fund Equity (continued)

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2009. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

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.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$2,500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired after July 1, 2003, consist of the road network and drainage system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Various capital projects in the Sewer Fund were restated in the current year to properly report expenses by project. There was no change in total net assets.

All other capital assets are depreciated using the straight-line method over the following useful lives:

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

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. 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.

9. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Public Safety – portion of fund balance restricted by revenue source for fire protection services.

Restricted for Economic and Physical Development – portion of fund balance restricted for future community programs.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Net Assets/Fund Balances (continued)

Restricted for Capital Projects – portion of fund balance that is restricted by revenue sources for construction projects.

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

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted. The governing body approves the appropriation.

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Noncompliance with North Carolina General Statutes

The Town is in violation of General Statute 159-13.2, whereas the Town did not adopt a capital project ordinance for the Town Hall Project or the Highway 70 Utility Relocation Project prior to initiation of the projects. The Town expended a total of \$1,453,685 in the Town Hall Project, and \$109,250 for the Highway 70 Utility Relocation project prior to adoption of the capital project ordinances. The Town will ensure all capital projects henceforth have an adopted capital project ordinance prior to commencement of the project.

2. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2011, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government by \$30,385, public safety by \$30,808, and public works by \$61,367. Also, the expenditures made in the Town's Water Fund exceeded the authorized appropriations made by the governing board for debt service by \$4,039. Management and the Board will more closely review the budget reports to ensure compliance in future years.

NOTE 3 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 the Town's 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.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

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, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits and relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$2,311,843 and a bank balance of \$2,382,223. Of the bank balance, \$750,000 was covered by federal depository insurance and \$1,632,223 was covered by collateral held under the pooling method. At June 30, 2011, the Town's petty cash fund totaled \$400.

2. Investments

At June 30, 2011, the Town had \$4,594,262 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.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowances for doubtful accounts:

Fund	6-30-11
General Fund	
Taxes receivable	\$ 13,841
Accounts receivable	2,032
Total	15,873
Enterprise Funds	29,338
Total	\$ 45,211

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 1,562,818	\$ -	\$ 1,562,818
Land	<u>250,979</u>	<u>98,716</u>	<u>-</u>	<u>349,695</u>
Total capital assets not being depreciated	<u>250,979</u>	<u>1,661,534</u>	<u>-</u>	<u>1,912,513</u>
Capital assets being depreciated:				
Equipment & fixtures	910,335	41,941	6,908	945,368
Vehicles	2,025,740	77,794	37,846	2,065,688
Buildings & improvements	927,238	-	-	927,238
Infrastructure	<u>899,745</u>	<u>-</u>	<u>-</u>	<u>899,745</u>
Total capital assets being depreciated	<u>4,763,058</u>	<u>119,735</u>	<u>44,754</u>	<u>4,838,039</u>
Less accumulated depreciation:				
Equipment & fixtures	752,605	32,532	6,908	778,229
Vehicles	1,537,357	124,523	37,846	1,624,034
Buildings & improvements	744,975	11,023	-	755,998
Infrastructure	<u>100,505</u>	<u>33,911</u>	<u>-</u>	<u>134,416</u>
Total accumulated depreciation	<u>3,135,442</u>	<u>201,989</u>	<u>44,754</u>	<u>3,292,677</u>
Total capital assets being depreciated, net	<u>1,627,616</u>			<u>1,545,362</u>
Governmental activities capital assets, net	<u>\$ 1,878,595</u>			<u>\$ 3,457,875</u>

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

Depreciation expense was charged to the governmental functions as follows:

General government	\$	9,428
Public safety		113,806
Public works		46,510
Culture and recreation		<u>32,245</u>
Total	\$	<u>201,989</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Water Fund:</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,174,528	\$ 387,536	\$ -	\$ 1,562,064
Land	<u>817,987</u>	<u>-</u>	<u>-</u>	<u>817,987</u>
Total capital assets not being depreciated	<u>1,992,515</u>	<u>387,536</u>	<u>-</u>	<u>2,380,051</u>
Capital assets being depreciated:				
Equipment & fixtures	287,502	-	-	287,502
Vehicles	111,289	-	-	111,289
Buildings & improvements	1,139,749	-	-	1,139,749
Plant & distribution system	<u>1,702,135</u>	<u>-</u>	<u>-</u>	<u>1,702,135</u>
Total capital assets being depreciated	<u>3,240,675</u>	<u>-</u>	<u>-</u>	<u>3,240,675</u>
Less accumulated depreciation:				
Equipment & fixtures	190,390	18,208	-	208,598
Vehicles	111,289	-	-	111,289
Buildings & improvements	786,410	28,494	-	814,904
Plant & distribution system	<u>1,186,143</u>	<u>32,345</u>	<u>-</u>	<u>1,218,488</u>
Total accumulated depreciation	<u>2,274,232</u>	<u>79,047</u>	<u>-</u>	<u>2,353,279</u>
Total capital assets being depreciated, net	<u>966,443</u>			<u>887,396</u>
Water Fund capital assets, net	<u>\$ 2,958,958</u>			<u>\$ 3,267,447</u>

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Sewer Fund:</i>				
Capital assets not being depreciated:				
Construction in progress	\$18,546,568	\$ 527,711	\$19,074,279	\$ -
Land	<u>245,628</u>	<u>-</u>	<u>-</u>	<u>245,628</u>
Total capital assets not being depreciated	<u>18,792,196</u>	<u>527,711</u>	<u>19,074,279</u>	<u>245,628</u>
Capital assets being depreciated:				
Equipment & fixtures	\$ 594,201	\$ 13,111	\$ 7,512	\$ 599,800
Vehicles	204,524	-	-	204,524
Plant & collection systems	<u>12,019,280</u>	<u>19,074,279</u>	<u>60,642</u>	<u>31,032,917</u>
Total capital assets being depreciated	<u>12,818,005</u>	<u>19,087,390</u>	<u>68,154</u>	<u>31,837,241</u>
Less accumulated depreciation:				
Equipment & fixtures	394,133	40,650	6,301	428,482
Vehicles	140,159	11,335	-	151,494
Plant & collection systems	<u>1,534,047</u>	<u>723,279</u>	<u>47,755</u>	<u>2,209,571</u>
Total accumulated depreciation	<u>2,068,339</u>	<u>775,264</u>	<u>54,056</u>	<u>2,789,547</u>
Total capital assets being depreciated, net	<u>10,749,666</u>			<u>29,047,694</u>
Sewer Fund capital assets, net	<u>\$29,541,862</u>			<u>\$29,293,322</u>

Construction commitments

The Town has active construction projects as of June 30, 2011. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water projects	\$ <u>1,562,064</u>	\$ <u>1,267,936</u>

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

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

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

Plan Description – The Town of Beaufort contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, NC 27699-1410, or by calling (919) 981-5454.

Funding Policy – Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.47% and 6.41% respectively, of annual covered payroll. The contribution requirements of members and the Town of Beaufort are established and may be amended by the NC General Assembly.

The Town's contributions to LGERS for the years ended June 30, 2011, 2010, and 2009, were \$295,816, \$235,822, and \$228,188, respectively. The contributions made by the Town equaled the required contributions for each year.

(b) Law Enforcement Officers' Special Separation Allowance

Plan Description – The Town of Beaufort administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increase in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	18
Total	18

A separate report was not issued for the plan.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

Summary of Significant Accounting Policies

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

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

Contributions

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

(c) Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description – The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasure and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina, 27699-1410, or by calling (919) 981-5454.

Funding Policy – Article 12E of the G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2011 were \$81,903 which consisted of \$42,304 from the Town and \$39,599 from the employees.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(d) Firemen's and Rescue Squad Worker's Pension Fund

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

Funding Policy – Plan members are required to contribute \$10 per month to the Fund. The state, a non-employer contributor, funds the plan through appropriations. The Town contributes to the fund for all members that are employees of the Town. Contribution requirements of the plan members and the State of North Carolina are established and may be amended by the N.C. General Assembly.

(e) Other Post-Employment 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 post-employment 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.

Funding Policy – By Town resolution, the retiree pays the full cost of coverage for the healthcare benefits provided to qualified retirees. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis. Post-employment 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. In the fiscal year ended June 30, 2011, the Town had no contributions.

Annual OPEB Cost and Net OPEB Obligation – The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. 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.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(e) Other Post-Employment Benefits (OPEB) – Healthcare Benefits (continued)

The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the post-employment healthcare benefits:

Annual required contribution	\$	10,141
Interest on net OPEB obligation		565
Adjustment to annual required contribution	(487)
Annual OPEB cost (expense)		10,219
Contributions made		-
Increase (decrease) in net OPEB obligation		10,219
Net OPEB obligation, beginning of year		14,122
Net OPEB obligation, end of year	\$	24,341

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, 2010 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 10,219	0%	\$ 24,341
2010	\$ 14,122	0%	\$ 14,122

Funded Status and Funding Progress – As of June 30, 2011, the actuarial accrued liability for benefits was \$193,185, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,677,600, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.21%.

The projection of future benefit payments for an ongoing plan involves 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 information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

(e) Other Post-Employment Benefits (OPEB) – Healthcare Benefits (continued)

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.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 62, or at the first subsequent year in which the member would qualify for benefits.

Marital Status – Marital status of the members at the calculation date was assumed to continue throughout retirement.

Mortality – Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2005 United States Life Tables for Males and for Females were used.

Turnover – Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 6% per year was used.

Health insurance premiums – 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 3% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2007 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate – The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 was 29 years.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

2. Deferred Revenues

The balance of deferred revenues in the fund financial statements at June 30, 2011 consisted of property taxes receivable, net.

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$8 million per occurrence, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, and auto liability in excess of \$500,000 up to \$500,000 for property, and \$250,000 up to \$5 million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1 million for the aggregate losses in a single year. After the property pool has paid out \$1 million, then the pool will be liable for a \$10,000 per claim maintenance deductible on future property losses for that year. The remainder of each claim will be borne by the re-insurer. The Town does not carry flood coverage, and has determined it is not necessary due to the location of the flood zones.

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

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

4. Claims, Judgments and Contingent Liabilities

At June 30, 2011, 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.

5. Long-Term Obligations

(a) Installment Purchase

In July 2008, the Town entered into an installment loan agreement for the purchase of a pumper truck. Annual debt payments are accounted for in the Fire Department Fund. The agreement requires ten semi-annual payments of \$32,513 each, including principal and interest at 3.12% per annum.

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 calls for 20 annual payments of principal in the amount of \$30,115 each, plus 40 semi-annual payments of interest at 2.205% per annum.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. 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 agreement calls for loan funding for up to \$1,145,000. As of June 30, 2011, the Town had drawn down \$305,627. Upon completion, the loan will require annual principal payments of \$57,250 each, plus 40 semi-annual payments of interest at an amount not to exceed 4% 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 \$783,650 each, plus 40 semi-annual payments of interest at 2.1% per annum.

In February 2010, the Town entered into an installment loan agreement for the purchase of land. The agreement requires 4 semi-annual payments of \$167,437 each, including principal and interest at 2.92% per annum.

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

The future minimum payments of the installment purchase as of June 30, 2011, including \$365,390 of interest in the governmental activities and \$3,615,894 of interest in business-type activities are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 60,652	\$ 30,550	\$ 1,082,179	\$ 363,665
2013	162,559	45,241	1,137,150	374,997
2014	132,012	40,324	1,140,315	349,672
2015	100,000	36,875	1,086,136	324,255
2016	100,000	33,925	1,029,525	301,269
Subsequent five years	500,000	125,375	5,147,623	1,173,963
Subsequent five years	500,000	51,625	5,147,623	619,992
Subsequent five years	<u>100,000</u>	<u>1,475</u>	<u>2,996,464</u>	<u>108,081</u>
Present value of the minimum lease payments	<u>\$ 1,655,223</u>		<u>\$ 18,767,015</u>	
Total interest payments		<u>\$ 365,390</u>		<u>\$ 3,615,894</u>

At June 30, 2011, the Town of Beaufort had a legal debt margin of \$58,646,780.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

5. Long-Term Obligations (continued)
(b) Changes in Long-term Obligations

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Compensated absences	\$ 167,705	\$ 18,552	\$ -	\$ 186,257	\$ 186,257
Installment loans	214,026	1,500,000	58,803	1,655,223	60,652
Other post-employment benefits	<u>11,375</u>	<u>8,064</u>	<u>-</u>	<u>19,439</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 393,106</u>	<u>\$ 1,526,616</u>	<u>\$ 58,803</u>	<u>\$ 1,860,919</u>	<u>\$ 246,909</u>
Business-type activities:					
Compensated absences	\$ 25,325	\$ 11,874	\$ -	\$ 37,199	\$ 37,199
Installment loans	19,007,068	1,199,424	1,439,477	18,767,015	1,082,179
Other post-employment benefits	<u>2,748</u>	<u>2,154</u>	<u>-</u>	<u>4,902</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 19,035,141</u>	<u>\$ 1,213,452</u>	<u>\$ 1,439,477</u>	<u>\$ 18,809,116</u>	<u>\$ 1,119,378</u>

6. Interfund Balances and Transfers

Balances due to/from other funds at June 30, 2011, consist of the following:

Due to the General Fund from the Town Hall Project Fund \$ 54,490

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds for the year ended June 30, 2011 were comprised of:

Transfer from General Fund to Fire District Fund
for the Town's portion of Fire District expenditures \$ 429,957

Transfer from General Fund to Town Hall Project Fund
for the Town's portion of building expenditures \$ 357,513

NOTE 4 PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2011, the Town determined that certain loan proceeds for water capital projects in 2009 had been misclassified as transfers from the Water Fund. Therefore, an adjustment to beginning net assets in the Water Fund in the amount of \$137,240 was made. The beginning balance on the Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP) for the Water Supply and Well 2 Projects were restated to reflect this change.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 5 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	\$ 3,068,784
Less:	
Stabilization by State Statute	384,470
Streets – Powell Bill	533,759
Appropriated Fund Balance in 2012 Budget	250,000
Economic Physical Development	<u>383,200</u>
Remaining Fund Balance	<u>\$ 1,517,355</u>

NOTE 6 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.

GENERAL FUND

The General Fund accounts for resources traditionally associated with government that are associated with government that are not required legally or by sound financial management to be accounted for in other funds.

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND**
 For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Ad valorem taxes:			
Current year	\$	\$ 2,043,398	\$
Prior years		37,887	
Penalties and interest		10,745	
Total	<u>2,312,000</u>	<u>2,092,030</u>	<u>(219,970)</u>
Other taxes & licenses:			
ABC net revenues		47,322	
Local option sales tax		629,318	
Privilege licenses		29,320	
Total	<u>688,000</u>	<u>705,960</u>	<u>17,960</u>
Unrestricted intergovernmental:			
Payment in lieu of taxes		12,008	
Beer and wine tax		17,841	
Utilities franchise tax		277,767	
Total	<u>326,500</u>	<u>307,616</u>	<u>(18,884)</u>
Restricted intergovernmental:			
Police grants		621	
Powell Bill		114,873	
Other grants		965	
Total	<u>154,890</u>	<u>116,459</u>	<u>(38,431)</u>
Permits and fees:			
Building permits		62,717	
Court and parking fees		13,590	
Garbage/recycle fees		202,840	
Total	<u>317,250</u>	<u>279,147</u>	<u>(38,103)</u>
Sales and service:			
Rents		145,158	
Sales of cemetery lots		2,400	
Total	<u>136,000</u>	<u>147,558</u>	<u>11,558</u>

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND**

For the Year Ended June 30, 2011

(continued)

Variance
 Favorable
 (Unfavorable)

	Budget	Actual	(Unfavorable)
Investment earnings:			
Interest	75,000	10,242	(64,758)
Other revenues:			
Administrative expense			
Reimbursement from Water/Sewer Funds		20,000	
Private donations		340	
Miscellaneous		8,201	
Total	42,500	28,541	(13,959)
Total revenues	4,052,140	3,687,553	(364,587)
 Expenditures			
General government:			
Governing board:			
Governing board fees		13,995	
Professional fees		155,201	
Other expenditures		52,589	
Total	198,794	221,785	(22,991)
Administration:			
Salaries and benefits		398,667	
Operating expenditures		157,594	
Capital outlay		27,329	
Total	576,196	583,590	(7,394)
Total general government	774,990	805,375	(30,385)
Public safety:			
Police:			
Salaries and benefits		973,945	
Operating expenditures		223,376	
Capital outlay		82,327	
Total	1,244,150	1,279,648	(35,498)
Planning and inspections:			
Salaries and benefits		171,821	
Operating expenditures		46,314	
Total	222,825	218,135	4,690
Total public safety	1,466,975	1,497,783	(30,808)

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND**
 For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	(continued) Variance Favorable (Unfavorable)
Public works:			
Salaries and benefits		440,416	
Operating expenditures		226,287	
Street lights		108,123	
Street maintenance		209,107	
Capital outlay		<u>10,080</u>	
Total public works	<u>932,646</u>	<u>994,013</u>	(<u>61,367</u>)
Environmental protection:			
Sanitation:			
Salaries and benefits		258,657	
Garbage/trash collection		<u>166,851</u>	
Total environmental protection	<u>460,729</u>	<u>425,508</u>	<u>35,221</u>
Culture and recreation:			
Parks and recreation	<u>56,800</u>	<u>98,266</u>	(<u>41,466</u>)
Total expenditures	<u>3,692,140</u>	<u>3,820,945</u>	(<u>128,805</u>)
Revenues over (under) expenditures	<u>360,000</u>	(<u>133,392</u>)	(<u>493,392</u>)
Other financing sources (uses)			
Transfer to Fire Fund	(660,000)	(429,957)	230,043
Transfer to Town Hall Project	<u>-</u>	(<u>357,513</u>)	(<u>357,513</u>)
Total other financing sources (uses)	(<u>660,000</u>)	(<u>787,470</u>)	(<u>127,470</u>)
Fund balance appropriated	<u>300,000</u>	<u>-</u>	(<u>300,000</u>)
Net change in fund balance	<u>\$ -</u>	(920,862)	(<u>\$ 920,862</u>)
Fund balance, beginning		<u>3,989,646</u>	
Fund balance, ending		<u>\$ 3,068,784</u>	

FIRE DISTRICT FUND

A Special Revenue Fund used to account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Fire and Rescue District – This fund accounts for the operations of the Beaufort Fire District.

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUND - FIRE DISTRICT**
 For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Ad valorem taxes	\$	\$ 265,762	\$
Sales tax		59,951	
Grants		98,716	
Interest		75	
Miscellaneous		1,564	
Total revenues	<u>327,300</u>	<u>426,068</u>	<u>98,768</u>
EXPENDITURES			
Salaries and benefits		721,244	
Operating expenses		128,051	
Capital outlay		98,716	
Total	<u>922,274</u>	<u>948,011</u>	<u>(25,737)</u>
Debt service:			
Principal	58,803	58,803	
Interest	6,223	6,223	
Total	<u>65,026</u>	<u>65,026</u>	<u>-</u>
Total expenditures	<u>987,300</u>	<u>1,013,037</u>	<u>(25,737)</u>
Revenues over (under) expenditures	<u>(660,000)</u>	<u>(586,969)</u>	<u>73,031</u>
OTHER FINANCING SOURCES			
Transfer from General Fund	<u>660,000</u>	<u>429,957</u>	<u>(230,043)</u>
Net change in fund balance	<u>\$ -</u>	<u>(157,012)</u>	<u>(\$ 157,012)</u>
Fund balance, beginning		<u>246,346</u>	
Fund balance, ending		<u>\$ 89,334</u>	

Town of Beaufort, North Carolina
CAPITAL PROJECTS FUND, TOWN HALL PROJECT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2011

	Project Authorization	Actual		Variance Positive (Negative)
		Current Year	Total to Date	
EXPENDITURES				
Engineering	\$ -	\$ 61,290	\$ 61,290	(\$ 61,290)
Construction	-	3,140	3,140	(3,140)
Property acquisition	-	<u>1,389,138</u>	<u>1,389,138</u>	(<u>1,389,138</u>)
Total expenditures	-	1,453,568	1,453,568	(1,453,568)
Revenues under expenditures	-	<u>(1,453,568)</u>	<u>(1,453,568)</u>	<u>(1,453,568)</u>
Other financing sources				
Loan proceeds	-	1,500,000	1,500,000	1,500,000
Transfer from general fund	-	<u>357,513</u>	<u>357,513</u>	<u>357,513</u>
Total other financing services	-	<u>1,857,513</u>	<u>1,857,513</u>	<u>1,857,513</u>
Net change in fund balance	<u>\$ -</u>	403,945	<u>\$ 403,945</u>	<u>\$ 403,945</u>
Fund balance, beginning		-		
Fund balance, ending		<u>\$ 403,945</u>		

Town of Beaufort, North Carolina
CAPITAL PROJECTS FUND, HIGHWAY 70 UTILITY RELOCATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2011

	Project Authorization	Actual		Variance Positive (Negative)
		Current Year	Total to Date	
REVENUES				
State grants	\$ -	\$ 80,618	\$ 80,618	\$ 80,618
EXPENDITURES				
Engineering	-	<u>109,250</u>	<u>109,250</u>	(<u>109,250</u>)
Revenues under expenditures	<u>\$ -</u>	(<u>28,632</u>)	(<u>\$ 28,632</u>)	(<u>\$ 28,632</u>)
Fund balance, beginning		<u>-</u>		
Fund balance, ending		<u>(\$ 28,632)</u>		

ENTERPRISE FUNDS

Enterprise Funds account for operations that are financed and operated in a manner similar to private business where the intent of the governing board is that costs of providing goods and services to the general public on a continuing basis be financed and recovered primarily through user charges.

Water and Sewer Funds – These funds account for the Town’s water and sewer operations.

Capital Project Funds – These funds account for the Town’s sewer capital project activities.

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
WATER FUND
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Operating revenues:			
Water service charges	\$	\$ 824,589	\$
Water tap fees		5,630	
Water connection fees		26,980	
Total	<u>880,000</u>	<u>857,199</u>	<u>(22,801)</u>
Non-operating revenues:			
Interest earned on investments		7,638	
Impact fees		25,100	
Other non-operating revenues		56,259	
Total	<u>147,300</u>	<u>88,997</u>	<u>(58,303)</u>
Total revenues	<u>1,027,300</u>	<u>946,196</u>	<u>(81,104)</u>
EXPENDITURES			
Operating expenses:			
Salaries and benefits		209,429	
Administrative expense		10,000	
Contract services		57,249	
Insurance		9,941	
Postage		15,040	
Professional fees		13,284	
Repairs and maintenance		25,273	
Supplies and materials		83,011	
Telephone and utilities		40,829	
Vehicle expenses		13,535	
County water purchase		46,062	
Other		25,609	
Total	<u>605,424</u>	<u>549,262</u>	<u>56,162</u>
Capital outlay:			
Equipment	<u>87,000</u>	-	<u>87,000</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
WATER FUND
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	(continued) Variance Favorable (Unfavorable)
Debt service:			
Principal	318,319	318,319	
Interest	16,557	20,596	
Total	<u>334,876</u>	<u>338,915</u>	(4,039)
 Total expenditures	 <u>1,027,300</u>	 <u>888,177</u>	 <u>139,123</u>
 Revenues over (under) expenditures	 <u>-</u>	 <u>58,019</u>	 <u>58,019</u>
 OTHER FINANCING SOURCES (USES)			
Transfer to capital project	<u>-</u>	(<u>346,135</u>)	(<u>346,135</u>)
 Revenues and other sources over (under) expenditures and other uses	 <u>\$ -</u>	 (<u>288,116</u>)	 (<u>\$ 288,116</u>)
 Reconciliation of modified accrual basis to full accrual basis:			
Reconciling items:			
Increase in accrued vacation		(1,928)	
Transfer to capital projects		346,135	
Increase in accrued OPEB liability		(472)	
Debt principal		318,319	
Depreciation		(<u>79,047</u>)	
Total reconciling items		<u>583,007</u>	
 Change in net assets		 <u>\$ 294,891</u>	

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
SEWER FUND
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Operating revenues:			
Sewer service charges	\$	\$ 2,133,490	\$
Sewer tap fees		1,500	
Total	<u>2,354,000</u>	<u>2,134,990</u>	<u>(219,010)</u>
Non-operating revenues:			
Interest earned on investments		4,150	
Impact fees		18,400	
Other non-operating revenues		3,554	
Total	<u>248,000</u>	<u>26,104</u>	<u>(221,896)</u>
Total revenues	<u>2,602,000</u>	<u>2,161,094</u>	<u>(440,906)</u>
EXPENDITURES			
Operating expenses:			
Salaries and benefits		443,857	
Administrative expense		10,000	
Contract services		13,037	
Insurance		24,985	
Professional fees		6,159	
Repairs and maintenance		24,689	
Supplies and materials		23,071	
Telephone and utilities		176,806	
Vehicle expense		28,638	
Other		44,506	
Total	<u>979,363</u>	<u>795,748</u>	<u>183,615</u>
Capital outlay:			
Equipment	<u>52,500</u>	<u>13,111</u>	<u>39,389</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
SEWER FUND
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	(continued) Variance Favorable (Unfavorable)
Debt Service:			
Principal payments	1,121,508	1,121,158	
Interest	<u>448,629</u>	<u>447,411</u>	
Total	<u>1,570,137</u>	<u>1,568,569</u>	<u>1,568</u>
 Total expenditures	 <u>2,602,000</u>	 <u>2,377,428</u>	 <u>224,572</u>
 Revenues over (under) expenditures	 <u>-</u>	 <u>(216,334)</u>	 <u>(216,334)</u>
 OTHER FINANCING SOURCES (USES)			
Transfer to capital projects	-	(73,648)	(73,648)
Transfer from capital projects	<u>-</u>	<u>501,902</u>	<u>501,902</u>
Total	<u>-</u>	<u>428,254</u>	<u>428,254</u>
 Revenues and other sources over (under) expenditures and other uses	 <u>\$ -</u>	 211,920	 <u>\$ 211,920</u>
 Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other financing			
Reconciling items:			
(Increase) in accrued vacation pay		(9,778)	
Debt principal		1,121,158	
Capital outlay		13,111	
Capital contribution		50,000	
Transfer from capital projects		(428,254)	
Increase in accrued OPEB liability		(1,682)	
Depreciation		<u>(775,264)</u>	
Total reconciling items		<u>(30,709)</u>	
 Change in net assets		 <u>\$ 181,211</u>	

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
WATER SUPPLY PROJECT
From Inception and for the Year Ended June 30, 2011

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Transfer from Water Fund	\$ 1,685,000	\$ 521,138	\$ 346,135	\$ 867,273	(\$ 817,727)
Total revenues	<u>1,685,000</u>	<u>521,138</u>	<u>346,135</u>	<u>867,273</u>	<u>(817,727)</u>
EXPENDITURES					
Administration	650,000	445	117,036	117,481	532,519
Engineering	535,000	395,795	182,590	578,385	(43,385)
Construction	<u>500,000</u>	<u>409,321</u>	<u>27,168</u>	<u>436,489</u>	<u>63,511</u>
Total expenditures	<u>1,685,000</u>	<u>805,561</u>	<u>326,794</u>	<u>1,132,355</u>	<u>552,645</u>
Total revenues over (under) expenditures	<u>\$ -</u>	<u>(\$ 284,423)</u>	<u>\$ 19,341</u>	<u>(\$ 265,082)</u>	<u>(\$ 265,082)</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
WELL 2 PROJECT
From Inception and for the Year Ended June 30, 2011

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 1,145,000	\$ 305,627	\$ -	\$ 305,627	(\$ 839,373)
Total revenues	<u>1,145,000</u>	<u>305,627</u>	<u>-</u>	<u>305,627</u>	<u>(839,373)</u>
EXPENDITURES					
Administration	300,600	-	41	41	300,559
Engineering	311,400	368,967	60,701	429,668	(118,268)
Construction	<u>533,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>533,000</u>
Total expenditures	<u>1,145,000</u>	<u>368,967</u>	<u>60,742</u>	<u>429,709</u>	<u>715,291</u>
Total revenues over (under) expenditures	<u>\$ -</u>	<u>(\$ 63,340)</u>	<u>(\$ 60,742)</u>	<u>(\$ 124,082)</u>	<u>(\$ 124,082)</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
SEWER FORCE MAIN PROJECT
From Inception and for the Year Ended June 30, 2011

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 737,928	\$ 592,554	\$ -	\$ 592,554	(\$ 145,374)
Total revenues	<u>737,928</u>	<u>592,554</u>	<u>-</u>	<u>592,554</u>	<u>(145,374)</u>
EXPENDITURES					
Administration	5,000	11,152	-	11,152	(6,152)
Legal	14,469	-	-	-	14,469
Engineering	185,500	162,264	-	162,264	23,236
Construction	507,580	489,493	-	489,493	18,087
Contingency	<u>25,379</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,379</u>
Total expenditures	<u>737,928</u>	<u>662,909</u>	<u>-</u>	<u>662,909</u>	<u>75,019</u>
Total revenues over (under) expenditures	<u>-</u>	<u>(70,355)</u>	<u>-</u>	<u>(70,355)</u>	<u>(70,355)</u>
Other Financing Services Transfer from Sewer Fund	<u>-</u>	<u>-</u>	<u>70,355</u>	<u>70,355</u>	<u>70,355</u>
Revenue and other sources over (under) expenditures	<u>\$ -</u>	<u>(\$ 70,355)</u>	<u>\$ 70,355</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
US 70 SEWER FORCE MAIN PROJECT
From Inception and for the Year Ended June 30, 2011

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Transfer from Sewer Fund	\$ 2,183,000	\$ 2,095,376	\$ 3,293	\$ 2,098,669	(\$ 84,331)
Total revenues	<u>2,183,000</u>	<u>2,095,376</u>	<u>3,293</u>	<u>2,098,669</u>	<u>(84,331)</u>
EXPENDITURES					
Administration	20,000	62,047	164,687	226,734	(206,734)
Engineering	508,000	262,810	(241,364)	21,446	486,554
Construction	<u>1,655,000</u>	<u>1,642,632</u>	<u>207,857</u>	<u>1,850,489</u>	<u>(195,489)</u>
Total expenditures	<u>2,183,000</u>	<u>1,967,489</u>	<u>131,180</u>	<u>2,098,669</u>	<u>84,331</u>
Total revenues over (under) expenditures	\$ -	\$ 127,887	(\$ 127,887)	\$ -	\$ -

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
PHASE III SEWER REHAB. PROJECT
From Inception and for the Year Ended June 30, 2011

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 6,057,694	\$ 5,557,814	\$ -	\$ 5,557,814	(\$ 499,880)
Total revenues	<u>6,057,694</u>	<u>5,557,814</u>	<u>-</u>	<u>5,557,814</u>	<u>(499,880)</u>
EXPENDITURES					
Administration	567,300	109,909	-	109,909	457,391
Engineering	732,000	524,449	-	524,449	207,551
Construction	<u>4,758,394</u>	<u>4,749,790</u>	<u>-</u>	<u>4,749,790</u>	<u>8,604</u>
Total expenditures	<u>6,057,694</u>	<u>5,384,148</u>	<u>-</u>	<u>5,384,148</u>	<u>673,546</u>
Total revenues over (under) expenditures	<u>-</u>	<u>173,666</u>	<u>-</u>	<u>173,666</u>	<u>173,666</u>
Other financing uses Transfer to Sewer Fund	<u>-</u>	<u>-</u>	<u>(173,666)</u>	<u>(173,666)</u>	<u>(173,666)</u>
Revenues over under expenditures and other uses	<u>\$ -</u>	<u>\$ 173,666</u>	<u>(\$ 173,666)</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
PHASE IV WASTE WATER TREATMENT PLANT PROJECT
From Inception and for the Year Ended June 30, 2011

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 13,337,000	\$ 12,824,186	\$ 1,199,424	\$ 14,023,610	\$ 686,610
Proceeds from NC Clean Water Management Trust Fund	3,000,000	2,728,866	-	2,728,866	(271,134)
Developer contribution	2,783,000	2,018,860	-	2,018,860	(764,140)
Proceeds from NC Rural Economic Development Center	<u>500,000</u>	<u>450,000</u>	<u>50,000</u>	<u>500,000</u>	<u>-</u>
Total revenues	<u>19,620,000</u>	<u>18,021,912</u>	<u>1,249,424</u>	<u>19,271,336</u>	<u>(348,664)</u>
EXPENDITURES					
Administration	632,315	307,315	-	307,315	325,000
Engineering	1,920,000	1,635,567	92,189	1,727,756	192,244
Construction	<u>17,067,685</u>	<u>16,603,687</u>	<u>304,342</u>	<u>16,908,029</u>	<u>159,656</u>
Total expenditures	<u>19,620,000</u>	<u>18,546,569</u>	<u>396,531</u>	<u>18,943,100</u>	<u>676,900</u>
Total revenues over (under) expenditures	<u>-</u>	<u>(524,657)</u>	<u>852,893</u>	<u>328,236</u>	<u>328,236</u>
Other financing uses Transfer to Sewer Fund	<u>-</u>	<u>-</u>	<u>(328,236)</u>	<u>(328,236)</u>	<u>(328,236)</u>
Revenues over (under) expenditures and other uses	<u>\$ -</u>	<u>(\$ 524,657)</u>	<u>\$ 524,657</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER SCHEDULES

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy – Town-wide

Town of Beaufort, North Carolina
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
GENERAL FUND
June 30, 2011

Fiscal Year	Uncollected Balance June 30, 2010	Additions	Collections and Credits	Uncollected Balance June 30, 2011
2010-2011	\$	\$ 2,140,031	\$ 2,043,823	\$ 96,208
2009-2010	66,998	-	32,957	34,041
2008-2009	16,189	-	56	16,133
2007-2008	2,285	-	761	1,524
2006-2007	4,289	-	983	3,306
2005-2006	3,420	-	450	2,970
2004-2005	802	-	266	536
2003-2004	876	-	252	624
2002-2003	3,985	-	-	3,985
2001-2002	-	-	-	-
2000-2001	1,865	-	1,865	-
	<u>\$ 100,709</u>	<u>\$ 2,140,031</u>	<u>\$ 2,081,413</u>	<u>159,327</u>
				Less: allowance for uncollectible accounts (13,841)
				Ad valorem taxes receivable -- net <u>\$ 145,486</u>
				Reconciliation with revenues:
				Ad valorem taxes – General Fund \$ 2,092,030
				Reconciling items:
				Taxes written off 128
				Penalties and interest (10,745)
				Net collections and credits <u>\$ 2,081,413</u>

Town of Beaufort, North Carolina
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2011

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current	\$ 987,736,360	.22	\$ 2,137,020	\$ 2,078,114	\$ 58,906
Penalty			1,633	1,633	-
Discoveries					
Current year taxes	9,459,545	.22	20,811	20,717	94
Abatements	(8,833,181)	.22	(19,433)	(17,031)	(2,402)
Total property valuation	<u>\$ 988,362,724</u>				
Net levy			2,140,031	2,083,433	56,598
Uncollected taxes at June 30, 2011			<u>96,208</u>	<u>86,751</u>	<u>9,457</u>
Current year's taxes collected			<u>\$ 2,043,823</u>	<u>\$ 1,996,682</u>	<u>\$ 47,141</u>
Current levy collection percentage			<u>95.50%</u>	<u>95.84%</u>	<u>83.29%</u>

COMPLIANCE SECTION

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

Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB CIRCULAR A-133 and the State Single Audit Implementation Act

- Schedule of Expenditures of Federal and State Awards
- Schedule of Findings and Questioned Costs
- Corrective Action Plan
- Summary Schedule of Prior Audit Findings

**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 the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina as of and for the year ended June 30, 2011, which collectively comprise the Town of Beaufort, North Carolina's basic financial statements, and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Beaufort is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Beaufort, North Carolina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2011-1, 2011-2, and 2011-3]

A significant deficiency is a deficiency or a 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. [2011-4, 2011-5, 2011-6, 2011-7, and 2011-8]

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*.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response, and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Mayor, Board of Commissioners, management, others within the entity, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Pittard Perry & Crook, Inc.

New Bern, North Carolina
February 13, 2012

**Report on Compliance with Requirements Applicable to Each Major
Federal Program and Internal Control Over Compliance in Accordance
with OMB Circular A-133 and the State Single Audit Implementation Act**

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

Compliance

We have audited the Town of Beaufort, North Carolina, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Beaufort, North Carolina's major federal programs for the year ended June 30, 2011. Town of Beaufort's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Beaufort's management. Our responsibility is to express an opinion on the Town of Beaufort's compliance based on our audit.

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

In our opinion, Town of Beaufort complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011

Internal Control Over Compliance

The management of Town of Beaufort is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Town of Beaufort's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of a compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Pittard Perry & Crane, Inc.

New Bern, North Carolina
February 13, 2012

Town of Beaufort, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2011

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Direct and Pass-through Expenditures	State Expenditures
Federal Grants (Cash Program)			
<u>Department of Commerce:</u>			
<u>Environmental Protection Agency</u>			
<u>Office of Water:</u>			
Passed through NC Department of Environment and Natural Resources:			
Drinking Water State Revolving Loan	66.458	\$ 407,273	\$ -
 <u>Department of Homeland Security:</u>			
<u>Agency Office of Water:</u>			
Staffing for Adequate Fire and Emergency Response	97.083		
 State Grants (Cash Programs)			
<u>NC Rural Economic Development:</u>			
Clean Water Grant		-	50,000
<u>NC Department of Transportation:</u>			
Powell bill		-	114,873
		<u>\$ 407,273</u>	<u>\$ 164,873</u>

Notes to the Schedule of Expenditures of Federal and State Financial Awards:

1. The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the Town of Beaufort and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profits Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. Loans Outstanding
The Town of Beaufort had the following loan balances outstanding at June 30, 2011. The loan balances outstanding are also included in the federal expenditures presented in this schedule.

Program Title	Federal CFDA Number	Pass-through Grantor's Number	Amount Outstanding
Drinking Water State Revolving Loan	66.458	XXXX	\$ 18,439,334

Town of Beaufort, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2011

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses X yes no

Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? yes X no
- Significant deficiencies identified that are not considered to be material weaknesses yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes X no

Identification of major federal programs:

CFDA Number	Program Name
66.458	State Clean Water Revolving Loan

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? yes X no

State Awards

None

Town of Beaufort, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

Section II. Financial Statement Findings

Material Weakness

2011-1 Segregation of duties

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

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

Effect: Transactions could be mishandled.

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

Recommendation: The duties should be segregated to the extent possible, and alternative controls should be used to compensate for the lack of segregation. In addition, the hiring of additional Town staff would greatly improve controls and mitigate risk.

Views of responsible officials: The Town agrees with this finding.

2011-2 Timely financial reporting

Criteria: Town staff should provide timely financial reports to management.

Condition: During the course of the audit, it was noted that financial records, such as bank reconciliations and budget vs. actual statements were not prepared on a timely basis.

Effect: Management is not able to evaluate the Town's operations effectively in a timely manner.

Cause: The Town has a limited number of personnel to perform its financial reporting functions.

Recommendation: Town management should consider hiring additional staff or reassign duties of the current staff to help in the financial reporting functions.

Views of responsible officials: The Town agrees with this finding.

2011-3 Capital project ordinance not adopted timely

Criteria: The Town must adopt a capital project ordinance for each project prior to the initiation of the project.

Condition: The Town did not adopt a capital project ordinance for the Town Hall Project or the Highway 70 Utility Relocation capital projects until the project was underway.

Effect: Town management spent moneys that had not been legally appropriated.

Cause: The Town started and expended funds for two capital projects prior to funds being legally appropriated.

Recommendation: Town management should adopt capital project ordinances for all projects prior to their onset.

Views of responsible officials: The Town agrees with this finding.

Town of Beaufort, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

Section II. Financial Statement Findings

Significant Deficiency

2011-4 Excess of expenditures over appropriation

Criteria: The budget should be monitored on an ongoing and consistent basis to ensure all expenditures are properly authorized and available.

Condition: During the course of our audit, we noted expenditures made in the General Fund exceeded authorized appropriations made by the governing board for general government by \$30,385, public safety by \$30,808, and public works by \$61,367. In addition, expenditures made in the Town's Water Fund exceeded authorized appropriations made by the governing board for debt service by \$4,039.

Effect: The General Fund and Water Fund budgets were over expended for the year.

Cause: Proper budget management procedures were not followed.

Recommendation: The Town needs to closely review budget reports to ensure compliance.

Views of responsible officials: The Town agrees with this finding.

2011-5 Sales tax refund report not filed timely

Criteria: The sales tax refund report should be filed semi-annually by October 15th and April 15th.

Condition: In performing field work, we noted the refund report for the June 30, 2010 year was not filed until June 29, 2011.

Effect: The Town was in violation of performing its timely filing of required forms.

Cause: Timely filing of the required reports was not performed.

Recommendation: Town management should closely monitor its filing requirements for all required forms.

Views of responsible officials: The Town agrees with this finding.

2011-6 Procurement policy

Criteria: All invoices should be reviewed, approved, and defaced prior to payment.

Condition: In testing cash disbursements, we noted a number of invoices that were not approved or defaced.

Effect: The Town has an internal control deficiency in its procurement policies.

Cause: Proper procurement policies were not followed.

Recommendation: The Town needs to strengthen its internal controls over procurement procedures to mitigate the risk of improper payment.

Views of responsible officials: The Town agrees with this finding.

Town of Beaufort, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

Section II. Financial Statement Findings

Significant Deficiency

2011-7 Actuarial study not performed

Criteria: The Town must have an actuarial study performed annual for the Law Enforcement's Special Separation Allowance.

Condition: At the conclusion of field work, it was determined the Town did not have an actuarial study performed for December 31, 2010.

Effect: The Town was in violation of performing its duties.

Cause: The required actuarial study was not performed due to a change in personnel.

Recommendation: Town personnel were notified of this requirement for future years.

Views of responsible officials: The Town agrees with this finding.

2011-8 Improper credit card reconciliation

Criteria: Receipts should be provided and approved for all credit card activity before payment is made.

Condition: During the course of our audit, we noted numerous instances where no receipts were provided when reconciling the monthly credit card statements.

Effect: The Town has the potential to pay unauthorized expenditures.

Cause: Proper procurement procedures were not followed.

Recommendation: The Town needs to strictly enforce its policy on requiring receipts before payment is made.

Section III. Federal Award Findings and Questioned Costs

None reported

Section IV. State Award Findings and Questioned Costs

None reported

Town of Beaufort, North Carolina
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2011

Section II. Financial Statement Findings

Material Weakness

2011-1 Segregation of duties

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will evaluate the need for additional finance department staff.

Proposed Completion Date: The Town will implement the above procedures immediately.

2011-2 Timely financial reporting

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will evaluate the need for additional finance department staff, or reassign personnel responsibilities to ensure timely financial reporting.

Proposed Completion Date: The Town will implement the above procedures immediately.

2011-3 Capital project ordinance not adopted timely

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will ensure all capital projects henceforth have an adopted capital project ordinance prior to the commencement of the project.

Proposed Completion Date: The Town will implement the above procedures immediately.

Significant Deficiency

2011-4 Excess of expenditures over appropriation

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will more closely monitor its budget reports to ensure compliance in future years.

Proposed Completion Date: The Town will implement the above procedures immediately.

2011-5 Sales tax refund report not filed timely

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will more closely monitor its filing requirements to ensure all are met timely.

Proposed Completion Date: The Town will implement the above procedures immediately.

Town of Beaufort, North Carolina
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2011

Section II. Financial Statement Findings

Significant Deficiency

2011-6 Procurement policy

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will strictly enforce its policy on proper approval and defacement before payment is made.

Proposed Completion Date: The Town will implement the above procedures immediately.

2011-7 Actuarial study not performed

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will have an actuarial study performed annually and in a timely manner.

Proposed Completion Date: The Town will implement the above procedures immediately.

2011-8 Improper credit card reconciliation

Name of contact person: O.K. Hogan – Finance Officer

Corrective Action: The Town will strictly enforce its policy on requiring receipts before payment is made.

Proposed Completion Date: The Town will implement the above procedures immediately.

Town of Beaufort, North Carolina
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2011

2010-1 Excess of expenditure over appropriation

Status: This is an ongoing issue the Town continues to address. See finding 2011-4.

2010-2 Improper credit card reconciliation

Status: This is an ongoing issue the Town continues to address. See finding 2011-8.

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort as of and for the year ended June 30, 2011, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements.

During our audit, we noted the following immaterial discrepancies:

All sales tax paid, regardless of the fund the expense is paid from, is recorded as a receivable in the General Fund.

Town should consider meeting with the capital project administrators on a monthly basis in order to reconcile the Town's general ledger with the project administrator's records.

The communication is intended solely for the information and use of management, the governing board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Pittard Perry & Crone, Inc.

New Bern, North Carolina
February 13, 2012