# TOWN OF BEAUFORT, NORTH CAROLINA

# FINANCIAL STATEMENTS

# JUNE 30, 2013

Town of Beaufort, North Carolina
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# FINANCIAL SECTION

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## 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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of June 30, 2013, and the respective changes in financial position, and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Fire District Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Other Matters*

*Required Supplementary Information*

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

*Supplementary and Other Information*

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Beaufort, North Carolina. The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and 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 Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our report, the procedures performed as described above, the individual fund statements, budgetary schedules, Schedule of Expenditures of Federal and State Awards, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of the Town of Beaufort, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Beaufort's internal control over financial reporting and compliance.

Cauy Riggs & Ingram, L.L.C

New Bern, North Carolina
November 8, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2013

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, 2013. We encourage readers to use the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

- The assets of the Town of Beaufort exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $23,799,324 (*net position*). This amount was comprised of net position in the governmental funds of $5,216,749 and $18,582,575 in business-type funds.

- The government's total net position increased by $642,610, which consisted of an increase of governmental funds of $483,974, and an increase in business-type funds of $158,636.

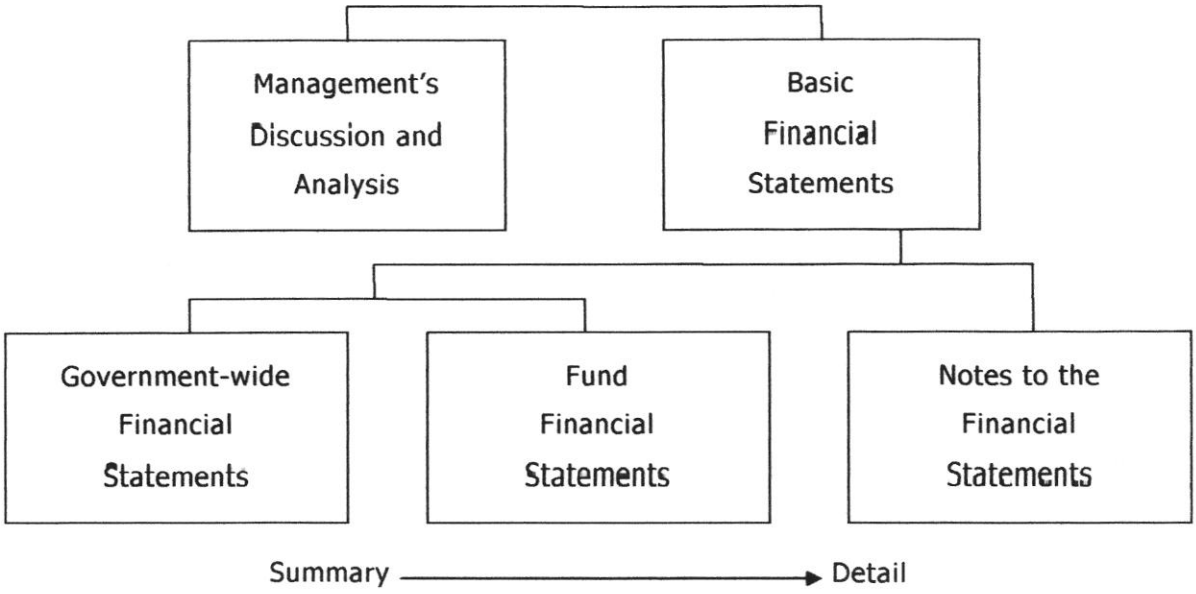
- As of the close of the current fiscal year, the Town of Beaufort's governmental funds reported combined ending fund balances of $2,712,104, an increase of $215,289 over the prior year. Approximately 45.7% of this total amount, or $1,238,332, is available for spending at the government's discretion.

- Long-term debt in the governmental funds increased by a net amount of $170,415 due to the addition of a loan for a new pumper truck for $359,858 and principal reductions in the amount of $189,443. Long-term debt in the enterprise funds decreased by a net amount of $136,718 due primarily to a combination of additional loans of $1,000,433 for water infrastructure projects and principal payments of $1,137,151.

### Overview of the Financial Statements

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

**Required Components of Annual Financial Report**
**Figure 1**




**Basic Financial Statements**

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

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

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

**Government-wide Financial Statements**

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

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

The government-wide statements are divided into two categories; governmental activities and business-type activities. The governmental activities include most of the Town's basic services such as public safety, trash and recycle pickup, local streets and public property, parks and recreation, and general administration. Property taxes, federal and state shared revenues and grants finance most of these activities. The business-type activities are the utility services that the Town charges customers' user fees to provide. These include the water and sewer services provided by the Town of Beaufort.

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

## Fund Financial Statements

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

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

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes begin on page 25.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Beaufort's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 48 of this report.

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

## Town of Beaufort's Net Position

### Figure 2

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current and other assets | $ 2,589,018 | $ 2,869,004 | $ 2,956,882 | $ 2,739,661 | $ 5,545,900 | $ 5,608,665 |
| Restricted assets | 874,091 | 645,154 | 2,041,271 | 2,011,734 | 2,915,362 | 2,656,888 |
| Capital assets | 4,474,519 | 4,158,146 | 32,136,199 | 32,147,693 | 36,610,718 | 36,305,839 |
| Total assets | 7,937,628 | 7,672,304 | 37,134,352 | 36,899,088 | 45,071,980 | 44,571,392 |
| Current liabilities | 1,009,480 | 1,263,009 | 1,717,518 | 1,451,951 | 2,726,998 | 2,741,960 |
| Long-term liabilities | 1,705,415 | 1,567,270 | 16,834,259 | 17,023,198 | 18,539,674 | 18,590,468 |
| Deferred inflows of resources | 5,984 | - | - | - | 5,984 | - |
| Total liabilities and deferred inflows of resources | 2,720,879 | 2,830,279 | 18,551,777 | 18,475,149 | 21,272,656 | 21,305,428 |
| Net position: | | | | | | |
| Net investment in capital assets | 2,575,335 | 2,429,377 | 14,119,475 | 13,994,251 | 16,694,810 | 16,423,628 |
| Restricted | 1,323,528 | 1,634,818 | - | - | 1,323,528 | 1,634,818 |
| Unrestricted | 1,317,886 | 777,830 | 4,463,100 | 4,429,688 | 5,780,986 | 5,207,518 |
| Total net position | $ 5,216,749 | $ 4,842,025 | $ 18,582,575 | $ 18,423,939 | $ 23,799,324 | $ 23,265,964 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Beaufort exceeded liabilities and deferred inflows by $23,799,324 as of June 30, 2013. The Town's net position increased by $642,610 for the fiscal year ended June 30, 2013.

However, the largest portion 70% or $16,694,810, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Beaufort uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Of the Town of Beaufort's net position at June 30, 2013, $1,323,528, or 5.5%, represents resources that are subject to external restrictions on how they may be used. The unrestricted balance at year end was $5,780,986.

## Town of Beaufort's Changes in Net Position

### Figure 3

| | Governmental Activities | | Business-type Activities | | Totals | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Program revenues: | | | | | | |
| Charges for services | $ 392,890 | $ 384,714 | $ 2,987,871 | $ 2,995,757 | $ 3,380,761 | $ 3,380,471 |
| Operating grants | 135,971 | 308,074 | - | - | 135,971 | 308,074 |
| Capital grants | 311,748 | 28,632 | - | 709,524 | 311,748 | 738,156 |
| General revenues | | | | | | |
| Property taxes | 2,705,957 | 2,373,095 | - | - | 2,705,957 | 2,373,095 |
| Other taxes | 918,110 | 850,427 | - | - | 918,110 | 850,427 |
| Other | 662,251 | 731,340 | 111,514 | 128,370 | 773,765 | 859,710 |
| Total revenues | 5,126,927 | 4,676,282 | 3,099,385 | 3,833,651 | 8,226,312 | 8,509,933 |
| Expenses: | | | | | | |
| General government | 1,174,201 | 1,090,569 | - | - | 1,174,201 | 1,090,569 |
| Public safety | 2,318,209 | 2,456,482 | - | - | 2,318,209 | 2,456,482 |
| Transportation | 748,858 | 1,054,328 | - | - | 748,858 | 1,054,328 |
| Environmental protection | 328,897 | 386,333 | - | - | 328,897 | 386,333 |
| Culture and recreation | 39,265 | 32,610 | - | - | 39,265 | 32,610 |
| Interest on long-term debt | 48,749 | 27,586 | - | - | 48,749 | 27,586 |
| Water and sewer | - | - | 2,925,523 | 2,911,198 | 2,925,523 | 2,911,198 |
| Total expenses | 4,658,179 | 5,047,908 | 2,925,523 | 2,911,198 | 7,583,702 | 7,959,106 |
| Increase in net position before transfers | 468,748 | ( 371,626) | 173,862 | 922,453 | 642,610 | 550,827 |
| Transfers | 15,226 | ( 62,222) | ( 15,226) | 62,222 | - | - |
| Change in net position | 483,974 | ( 433,848) | 158,636 | 984,675 | 642,610 | 550,827 |
| Prior period adjustment | ( 109,250) | - | - | - | ( 109,250) | - |
| Net position, July 1 | 4,842,025 | 5,275,873 | 18,423,939 | 17,439,264 | 23,265,964 | 22,715,137 |
| Net position, June 30 | $ 5,216,749 | $ 4,842,025 | $ 18,582,575 | $ 18,423,939 | $ 23,799,324 | $ 23,265,964 |

**Governmental activities.** Governmental activities resulted in an increase of the Town's net position by $483,974, a combined result of decreased spending levels, decreased staffing levels, improved tax collection rates, and the receipt of $264,461 in funds from Carteret County for the construction of a fire substation. Town management continues to monitor spending in an effort to keep increases modest.

**Business-type activities:** Business-type activities increased the Town's net position by $158,636. The gain is modest as compared to the prior year as there were no funds from capital grants received this year.

### Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Beaufort. At the end of the current fiscal year, total fund balance of the General Fund was $2,501,137, of which $1,540,898 was unassigned and available for use by the Board of Commissioners. This unreserved amount represents 40.8% of total General Fund expenditures for the year.

**General Fund Budgetary Highlights:** During the fiscal year, the Town revised the budget several 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.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year amounted to $4,463,100.

## 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, 2013, totaled $36,610,718 (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 | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | $ 1,461,005 | $ 1,461,005 | $ 1,063,615 | $ 1,063,615 | $ 2,524,620 | $ 2,524,620 |
| Construction in progress | 206,144 | 223,573 | 769,495 | 880,844 | 975,639 | 1,104,417 |
| Equipment | 156,860 | 183,116 | 134,108 | 196,225 | 290,968 | 379,341 |
| Vehicles | 762,390 | 563,800 | 62,309 | 79,868 | 824,699 | 643,668 |
| Buildings & improvements | 977,019 | 1,008,057 | 230,740 | 259,234 | 1,207,759 | 1,267,291 |
| Infrastructure | 911,101 | 718,595 | 29,875,932 | 29,667,907 | 30,787,033 | 30,386,502 |
| Total assets | $ 4,474,519 | $ 4,158,146 | $ 32,136,199 | $ 32,147,693 | $ 36,610,718 | $ 36,305,839 |

**Long-term Debt.** Following is a summary of outstanding long-term obligations as of June 30, 2013 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 | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Installment loans | $ 1,899,184 | $ 1,728,769 | $ 18,016,724 | $ 18,153,442 | $ 19,915,908 | $ 19,882,211 |

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 $43,263,110.

## Economic Factors and Next Year's Budgets and Rates

Fiscal year 2013 saw modest but real growth in several key revenue lines indicative of localized economic recovery. Consumer spending levels appear to be returning to pre-recession levels as evidenced, in particular, by the increase in sales and use tax. Property tax collection rates improved, with several key bankruptcy settlements accounting for the larger than expected increase over FY 2012. Moving forward into FY 2014, the Town is encouraged by the signs of economic improvement, albeit at a relatively slow pace.

While the Town is cautiously optimistic about revenue growth, revenue projections for FY14 remained conservative. A property tax collection rate of 96.9% was utilized in accordance with the General Statutes. Other State funding sources were projected to increase slightly over FY13, consistent with the projections provided by the North Carolina League of Municipalities. General fund reserves were not included as a means to balance the FY14 budget, nor was there any increase in service delivery fees, or in the existing .30 per $100 tax rate.

In preparing the FY14 budget for the General Fund, the Town continued to focus on improving the efficiency of service delivery. Staffing levels were reduced in FY14, particularly in Public Works and Public Safety, with the expressed idea that by leveraging training programs and technology, service delivery would continue or improve, while costs were kept significantly lower than prior years. A 2% cost of living mid-year salary adjustment is included in the FY 2014 budget, and at the time of writing, management is considering making select salary adjustments to bring certain positions in line with industry norms.

With respect to the Utility Fund, the Town continues to face fiscal challenges. While the Town is hopeful that the recent signs of economic recovery will spawn new development bringing new water/sewer users online, revenue projections for FY14 are only slightly above FY13 levels. Because the growth in number of households used to formulate existing water and sewer rates has yet to materialize, the solvency of the Utility Fund is difficult to maintain with the current rates in place. While no increase was included in the FY14 budget, the Town continues to monitor the fund closely and, at the time of this writing, is contemplating a mid-year rate increase, or an allocation of reserve funds, due to several unanticipated maintenance costs.

In looking ahead to future budgets, the Town remains concerned particularly about State funding sources as the legislature continues to review and adjust its tax policies. While the last legislative session yielded nothing to significantly impact Town revenue in FY14, there are several pending pieces of legislation with broad reaching implications moving forward. The Town continues to evaluate potential impacts in order to identify strategies to mitigate any reductions in funding. Clearly, the state of the national and global economy remains a concern.

## Requests for Information

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

# BASIC FINANCIAL STATEMENTS

Town of Beaufort, North Carolina

**STATEMENT OF NET POSITION**

June 30, 2013

Exhibit 1

| | Governmental Activities | Business-type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets | | | |
| Cash and investments | $ 1,700,774 | $ 2,366,518 | $ 4,067,292 |
| Taxes receivable (net) | 140,815 | - | 140,815 |
| Accounts receivable | 747,429 | 590,364 | 1,337,793 |
| Restricted cash and investments | 874,091 | 2,041,271 | 2,915,362 |
| Total current assets | 3,463,109 | 4,998,153 | 8,461,262 |
| Capital assets | | | |
| Construction in progress | 206,144 | 769,495 | 975,639 |
| Land | 1,461,005 | 1,063,615 | 2,524,620 |
| Capital assets, net of depreciation | 2,807,370 | 30,303,089 | 33,110,459 |
| Total capital assets | 4,474,519 | 32,136,199 | 36,610,718 |
| Total assets | $ 7,937,628 | $ 37,134,352 | $ 45,071,980 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | $ 301,640 | $ 349,615 | $ 651,505 |
| Cash overdraft | 302,566 | - | 302,566 |
| Customer deposits | - | 149,581 | 149,331 |
| Accrued vacation payable | 177,543 | 27,446 | 204,989 |
| Current portion of long-term liabilities | 227,731 | 1,190,876 | 1,418,607 |
| Total current liabilities | 1,009,480 | 1,717,518 | 2,726,998 |
| Long-term liabilities: | | | |
| Due in more than one year | 1,705,415 | 16,834,259 | 18,539,674 |
| Total liabilities | 2,714,895 | 18,551,777 | 21,266,672 |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Prepaid taxes | 5,984 | - | 5,984 |
| Total deferred inflows of resources | 5,984 | - | 5,984 |
| **NET POSITION** | | | |
| Net investment in capital assets | 2,575,335 | 14,119,475 | 16,694,810 |
| Restricted for: | | | |
| Stabilization by State Statue | 747,429 | - | 747,429 |
| Streets | 576,099 | - | 576,099 |
| Unrestricted | 1,317,886 | 4,463,100 | 5,780,986 |
| Total net position | $ 5,216,749 | $ 18,582,575 | $ 23,799,324 |

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, 2013

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants | Program Revenues: Capital Grants |
|---|---|---|---|---|
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | $ 1,174,201 | $ - | $ - | $ - |
| Public safety | 2,318,209 | 89,753 | 14,279 | 264,461 |
| Transportation | 748,858 | - | 120,762 | - |
| Environmental protection | 328,897 | 303,137 | 930 | 47,287 |
| Cultural and recreation | 39,265 | - | - | - |
| Interest on long-term debt | 48,749 | - | - | - |
| Total governmental activities | 4,658,179 | 392,890 | 135,971 | 311,748 |
| Business-type activities: | | | | |
| Utility Fund | 2,925,523 | 2,987,871 | - | - |
| Total business-type activities | 2,925,523 | 2,987,871 | - | - |
| Total primary government | $ 7,583,702 | $ 3,380,761 | $ 135,971 | $ 311,748 |

General revenues:
- Taxes:
  - Property taxes, levied for general purpose
  - Other taxes
- Grants and contributions not restricted to specific programs
- Unrestricted investment earnings
- Miscellaneous
- Total general revenues not including transfers
- Book value of assets transferred
- Total general revenues and transfers
- Change in net position
- Net position, beginning, previously reported
- Restatement of fixed assets
- Net position, beginning, restated
- Net position, ending

Net (Expense) Revenue and Changes in Net Position

| Governmental Activities | Business-type Activities | Total |
|---|---|---|
| ($ 1,174,201) | $ - | ($ 1,174,201) |
| ( 1,949,716) | - | ( 1,949,716) |
| ( 628,096) | - | ( 628,096) |
| 22,457 | - | 22,457 |
| ( 39,265) | - | ( 39,265) |
| ( 48,749) | - | ( 48,749) |
| ( 3,817,570) | - | ( 3,817,570) |
| - | 62,348 | 62,348 |
| - | 62,348 | 62,348 |
| ( 3,817,570) | 62,348 | ( 3,755,222) |
| 2,705,957 | - | 2,705,957 |
| 918,110 | - | 918,110 |
| 304,703 | - | 304,703 |
| 3,715 | 7,996 | 11,711 |
| 353,833 | 103,518 | 457,351 |
| 4,286,318 | 111,514 | 4,397,832 |
| 15,226 | ( 15,226) | - |
| 4,301,544 | 96,288 | 4,397,832 |
| 483,974 | 158,636 | 642,610 |
| 4,842,025 | 18,423,939 | 23,265,964 |
| ( 109,250) | - | ( 109,250) |
| 4,732,775 | 18,423,939 | 23,156,714 |
| $ 5,216,749 | $ 18,582,575 | $ 23,799,324 |

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

Town of Beaufort, North Carolina

**BALANCE SHEET - GOVERNMENTAL FUNDS**

June 30, 2013

Exhibit 3

| | Major Funds | | | | |
|---|---|---|---|---|---|
| | General Fund | Fire District Fund | Hwy 70 Utility Relocation | Fire Substation Fund | Total Governmental Funds |
| **ASSETS** | | | | | |
| Cash and investments | $ 1,661,132 | $ 39,642 | $ - | $ - | $ 1,700,774 |
| Restricted cash | 576,099 | 70,000 | - | 227,992 | 874,091 |
| Ad valorem taxes receivable (net) | 140,815 | - | - | - | 140,815 |
| Accounts receivable | 384,140 | 13,436 | 349,853 | - | 747,429 |
| Total assets | $ 2,762,186 | $ 123,078 | $ 349,853 | $ 227,992 | $ 3,463,109 |
| **LIABILITIES** | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ 114,250 | $ 17,715 | $ - | $ 169,675 | $ 301,640 |
| Cash overdraft | - | - | 302,566 | - | 302,566 |
| Total liabilities | 114,250 | 17,715 | 302,566 | 169,675 | 604,206 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Property taxes receivable | 140,815 | - | - | - | 140,815 |
| Prepaid revenues | 5,984 | - | - | - | 5,984 |
| Total deferred inflows of resources | 146,799 | - | - | - | 146,799 |
| **FUND BALANCE**: | | | | | |
| Restricted | | | | | |
| Stabilization by State Statue | 384,140 | - | 349,853 | - | 733,993 |
| Streets | 576,099 | - | - | - | 576,099 |
| Assigned | | | | | |
| Public safety | - | 105,363 | - | 58,317 | 163,680 |
| Unassigned | 1,540,898 | - | ( 302,566) | - | 1,238,332 |
| Total fund balances | 2,501,137 | 105,363 | 47,287 | 58,317 | 2,712,104 |
| Total liabilities, deferred inflows of resources and fund balances | $ 2,762,186 | $ 123,078 | $ 47,827 | $ 227,992 | |

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

| | |
|---|---|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 4,474,519 |
| Liabilities for earned revenues considered deferred inflows of resources in fund statements. | 140,815 |
| 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 | ( 2,110,689) |
| Net position of governmental activities | $ 5,216,749 |

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, 2013

Exhibit 4

| | Major Funds | | | | |
|---|---|---|---|---|---|
| | General Fund | Fire District Fund | Hwy 70 Utility Relocation | Fire Substation Fund | Total Governmental Funds |
| **REVENUES** | | | | | |
| Ad valorem taxes | $ 2,386,090 | $ 322,385 | $ - | $ - | $ 2,708,475 |
| Other taxes and licenses | 840,110 | 78,000 | - | - | 918,110 |
| Unrestricted intergovernmental | 304,703 | - | - | - | 304,703 |
| Restricted intergovernmental | 121,692 | 14,279 | 1,277,566 | 264,461 | 1,677,998 |
| Permits and fees | 392,890 | - | - | - | 392,890 |
| Sales and service | 214,415 | - | - | - | 214,415 |
| Investment earnings | 3,293 | 422 | - | - | 3,715 |
| Other | 183,885 | 2,430 | - | - | 186,315 |
| Total revenues | 4,447,078 | 417,516 | 1,277,566 | 264,461 | 6,406,621 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| General government | 1,171,518 | - | - | - | 1,171,518 |
| Public safety | 1,326,312 | 1,280,320 | - | 206,144 | 2,812,776 |
| Public works | 774,710 | - | - | - | 774,710 |
| Environmental protection | 323,713 | - | 1,230,279 | - | 1,553,992 |
| Debt service: | | | | | |
| Principal | 126,886 | 62,559 | - | - | 189,445 |
| Interest | 46,283 | 2,466 | - | - | 48,749 |
| Total expenditures | 3,769,422 | 1,345,345 | 1,230,279 | 206,144 | 6,551,190 |
| Excess (deficiency) of revenues over expenditures | 677,656 | ( 927,829) | 47,287 | 58,317 | ( 144,569) |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Loan proceeds | - | 359,858 | - | - | 359,858 |
| Transfer to other funds | ( 584,000) | - | - | - | ( 584,000) |
| Transfers from other funds | - | 584,000 | - | - | 584,000 |
| Total other financing sources (uses) | ( 584,000) | 943,858 | - | - | 359,858 |
| Net change in fund balance | 93,656 | 16,029 | 47,287 | 58,317 | 215,289 |
| Fund balance, beginning | 2,407,481 | 89,334 | - | - | 2,496,815 |
| Fund balance, ending | $ 2,501,137 | $ 105,363 | $ 47,287 | $ 58,317 | $ 2,712,104 |

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, 2013

Exhibit 4 (continued)

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

| | | |
|---|---|---|
| Net changes in fund balances – total governmental funds | $ | 215,289 |
| 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 | | 425,623 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements: | | |
| Change in unavailable revenue for tax revenues | ( | 2,518) |
| 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 | | 22,012 |
| Other post-employment benefits | ( | 6,017) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. | ( | 170,415) |
| Total changes in net position of governmental activities | $ | 483,974 |

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, 2013

| | General Fund | | | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
| **REVENUES** | | | | |
| Ad valorem taxes | $ 2,440,000 | $ 2,373,676 | $ 2,386,090 | $ 12,414 |
| Other taxes and licenses | 670,000 | 801,286 | 840,110 | 38,824 |
| Unrestricted intergovernmental | 300,000 | 284,797 | 304,703 | 19,906 |
| Restricted intergovernmental | 110,000 | 121,692 | 121,692 | - |
| Permits and fees | 300,000 | 387,746 | 392,890 | 5,144 |
| Sales and service | 150,000 | 214,415 | 214,415 | - |
| Investment earnings | - | 7,000 | 3,293 | ( 3,707) |
| Other | 394,775 | 183,080 | 183,885 | 805 |
| Total revenues | 4,364,775 | 4,373,692 | 4,447,078 | 73,386 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 998,600 | 1,191,346 | 1,171,518 | 19,828 |
| Public safety | 1,334,829 | 1,354,829 | 1,326,312 | 28,517 |
| Public works | 882,170 | 801,391 | 774,710 | 26,681 |
| Environmental protection | 362,953 | 328,956 | 323,713 | 5,243 |
| Debt service: | | | | |
| Principal | 104,615 | 126,886 | 126,886 | - |
| Interest | 38,161 | 46,284 | 46,283 | 1 |
| Total expenditures | 3,721,328 | 3,849,692 | 3,769,422 | 80,270 |
| Revenues over (under) expenditures | 643,447 | 524,000 | 677,656 | 153,656 |
| Other financial sources (uses): | | | | |
| Loan proceeds | - | - | - | - |
| Transfers from other funds | - | - | - | - |
| Transfers to other funds | ( 643,447) | ( 726,113) | ( 584,000) | 142,113 |
| Total other financing sources (uses) | ( 643,447) | ( 726,113) | ( 584,000) | 142,113 |
| Revenues and other sources over (under) expenditures and other uses | - | ( 202,113) | 93,656 | 295,769 |
| Appropriated fund balance | - | 202,113 | - | ( 202,113) |
| Net change in fund balance | $ - | $ - | 93,656 | $ 93,656 |
| Fund balance, beginning | | | 2,407,481 | |
| Fund balance, ending | | | $ 2,501,137 | |

| Fire Fund | | | |
|---|---|---|---|
| Original Budget | Final Budget | Actual Amounts | Variance with Final Budget Positive (Negative) |
| $ 322,385 | $ 322,385 | $ 322,385 | $ - |
| 70,000 | 70,000 | 78,000 | 8,000 |
| - | - | - | - |
| - | 14,279 | 14,279 | - |
| - | - | - | - |
| - | - | - | - |
| 1,000 | 1,000 | 422 | ( 578) |
| 5,618 | 2,430 | 2,430 | - |
| 399,003 | 410,094 | 417,516 | 7,422 |
| - | - | - | - |
| 978,959 | 919,089 | 1,280,320 | ( 361,231) |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 62,560 | 62,560 | 62,559 | 1 |
| 931 | 2,467 | 2,466 | 1 |
| 1,042,450 | 984,116 | 1,345,345 | ( 361,229) |
| ( 643,447) | ( 574,022) | ( 927,829) | ( 353,807) |
| - | - | 359,858 | 359,858 |
| 643,447 | 584,000 | 584,000 | - |
| - | ( 9,978) | - | 9,978 |
| 643,447 | 574,022 | 943,858 | 369,836 |
| - | - | 16,029 | 16,029 |
| - | - | - | - |
| $ - | $ - | 16,029 | $ 16,029 |
| | | 89,334 | |
| | | $ 105,363 | |

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

Town of Beaufort, North Carolina
**STATEMENT OF NET POSITION**
**PROPRIETARY FUNDS**
June 30, 2013

Exhibit 6

| | Major Fund |
|---|---|
| | Utility Fund |
| **ASSETS** | |
| Current assets: | |
| Cash and investments | $ 2,366,518 |
| Accounts receivable | 590,364 |
| Restricted cash and cash equivalents | 2,041,271 |
| Total current assets | 4,998,153 |
| Capital assets: | |
| Construction in progress | 769,495 |
| Land | 1,063,615 |
| Capital assets, net of depreciation | 30,303,089 |
| Total capital assets | 32,136,199 |
| Total assets | $ 37,134,352 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | $ 349,615 |
| Customer deposits | 149,581 |
| Accrued vacation | 27,446 |
| Current portion of long-term debt | 1,190,876 |
| Total current liabilities | 1,717,518 |
| Non-current liabilities: | |
| Long-term debt | 16,825,848 |
| Other post-employment benefits | 8,411 |
| Total non-current liabilities | 16,834,259 |
| Total liabilities | 18,551,777 |
| **NET POSITION** | |
| Net investment in capital assets | 14,119,475 |
| Unrestricted | 4,463,100 |
| Total net position | $ 18,582,575 |

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

Town of Beaufort, North Carolina

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

**PROPRIETARY FUNDS**

For the Year Ended June 30, 2013

Exhibit 7

| | Major Fund |
|---|---|
| | Utility Fund |
| **OPERATING REVENUES** | |
| Charges for services | $ 2,953,905 |
| Tap fees | 14,125 |
| Connection fees | 19,841 |
| Total operating revenues | 2,987,871 |
| **OPERATING EXPENSES** | |
| Water treatment and distribution | 560,238 |
| Waste collection and treatment | 1,031,051 |
| Depreciation | 900,999 |
| Total operating expenses | 2,492,288 |
| Operating income | 495,583 |
| **NON-OPERATING REVENUES (EXPENSES)** | |
| Interest earned on investments | 7,996 |
| Impact fees | 25,650 |
| Other non-operating revenues | 87,335 |
| Loss on sale of fixed assets | ( 9,468) |
| Book value of assets transferred | ( 15,226) |
| Interest on long-term debt | ( 433,234) |
| Total non-operating revenue (expenses) | ( 336,947) |
| Change in net position | 158,636 |
| Total net position, beginning | 18,423,939 |
| Total net position, ending | $ 18,582,575 |

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

Town of Beaufort, North Carolina
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
For the Year Ended June 30, 2013

Exhibit 8

| | Major Funds |
|---|---|
| | Utility Fund |
| **Cash flows from operating activities** | |
| Cash received from customers | $ 2,716,628 |
| Cash paid for goods and services | ( 714,917) |
| Cash paid to or on behalf of employees | ( 666,091) |
| Customer deposits received | 19,600 |
| Customer deposits returned | ( 16,535) |
| Net cash provided (used) by operating activities | 1,338,685 |
| **Cash flows from capital and related financing activities** | |
| Impact fees | 25,650 |
| Acquisition of capital assets | ( 914,199) |
| Installment notes issued | 1,000,433 |
| Principal paid on bonds | ( 1,137,151) |
| Interest paid on bonds | ( 433,234) |
| Other receipts | 87,335 |
| Net cash provided (used) by capital and financing activities | ( 1,371,166) |
| **Cash flows from investing activities** | |
| Interest earned | 7,996 |
| Net increase (decrease) in cash and cash equivalents | ( 24,485) |
| Balances, beginning of year | 4,432,274 |
| Balances, ending of year | $ 4,407,789 |
| **Reconciliation of operating income to net cash provided by operations** | |
| Operating income | $ 495,583 |
| Adjustments to reconcile income to cash provided by operations: | |
| Depreciation | 900,999 |
| (Increase) decrease in accounts receivable | ( 271,243) |
| Increase (decrease) in accounts payable | 215,145 |
| Increase (decrease) in accrued vacation | ( 6,369) |
| Increase (decrease) in customer deposits | 3,065 |
| Increase (decrease) in OPEB liability | 1,505 |
| Total | 843,102 |
| Net cash provided by operating activities | $ 1,338,685 |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation-Fund Accounting (continued)

The Town reports the following major governmental funds:

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

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

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

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

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

The Town reports the following major enterprise funds:

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

**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.

**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 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected vehicle taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

C. Measurement Focus and Basis of Accounting (continued)

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, 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 position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

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

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

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

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

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

E. Assets, 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 Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

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

3. Restricted Assets

The impact fees collected for the water and sewer funds are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the funds were originally collected. Powell Bill Funds are also classified as restricted cash because it can only be expended for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. In addition, the portion of funds held for the future construction of a fire station is reported as restricted assets. The Highway 70 Utility Relocation project has an overdrawn restricted cash balance at year end, as these funds may only be used for the construction progress.

4. Ad Valorem Taxes Receivable

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

5. Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

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

6. Capital Assets

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

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

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

7. Deferred outflows/inflows of resources

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

8. Long-term Obligations

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

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

8. Long-term Obligations (continued)

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

9. Compensated Absences

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

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

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

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

10. Net Position/Fund Balances (continued)

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 Statue [G.S. 159-8(a)].

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

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

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

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

## NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, the expenditures made in the Town's Fire District Fund exceeded the authorized appropriations made by the governing board for public safety by $361,229. The Board adopted a resolution approving the installment purchase agreement and capital outlay, but failed to adopt a budget amendment. 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 their name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

## NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

1. Deposits (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, 2013, the Town's deposits had a carrying amount of $2,740,986 and a bank balance of $2,512,407. Of the bank balance, $750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013, the Town's petty cash fund totaled $400.

2. Investments

At June 30, 2013, the Town had $3,938,702 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 Position for the year ended June 30, 2013 are net of the following allowances for doubtful accounts:

| | |
|---|---|
| General Fund: | |
| Taxes receivable | $ 18,023 |
| Accounts receivable | 4,840 |
| Total | 22,863 |
| Enterprise Funds | 55,175 |
| Total | $ 78,038 |

## NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

| | Beginning Balances | Increases | Decreases | Transfer | Ending Balances |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| **Capital assets not being depreciated:** | | | | | |
| Construction in progress | $ 114,323 | $ 216,094 | $ 124,273 | $ - | $ 206,144 |
| Land | 1,461,005 | - | - | - | 1,461,005 |
| Total capital assets not being depreciated | 1,575,328 | 216,094 | 124,273 | - | 1,667,149 |
| **Capital assets being depreciated:** | | | | | |
| Equipment & fixtures | 960,802 | 43,446 | 259,369 | - | 744,879 |
| Vehicles | 2,238,614 | 362,364 | 135,075 | 33,189 | 2,499,092 |
| Buildings & improvements | 1,419,645 | - | 7,376 | 19,033 | 1,431,302 |
| Infrastructure | 885,895 | 233,957 | - | - | 1,119,852 |
| Total capital assets being depreciated | 5,504,956 | 639,767 | 401,820 | 52,222 | 5,795,125 |
| **Less accumulated depreciation:** | | | | | |
| Equipment & fixtures | 777,686 | 42,852 | 232,519 | - | 588,019 |
| Vehicles | 1,674,814 | 148,990 | 120,291 | 33,189 | 1,736,702 |
| Buildings & improvements | 411,588 | 41,001 | 2,113 | 3,807 | 454,283 |
| Infrastructure | 167,300 | 41,451 | - | - | 208,751 |
| Total accumulated depreciation | 3,031,388 | 274,294 | 354,923 | 36,996 | 2,987,755 |
| Total capital assets being depreciated, net | 2,473,568 | $ 365,473 | $ 46,897 | $ 15,226 | 2,807,370 |
| **Governmental activities capital assets, net** | $ 4,158,146 | | | | $ 4,474,519 |

Depreciation expense was charged to the governmental functions as follows:

| | |
|---|---|
| General government | $ 43,170 |
| Public safety | 115,104 |
| Public works | 76,755 |
| Culture and recreation | 39,265 |
| Total | $ 274,294 |

## NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

| | Beginning Balances | Increases | Decreases | Transfer | Ending Balances |
|---|---|---|---|---|---|
| **Business-type activities:** | | | | | |
| ***Utility Fund:*** | | | | | |
| **Capital assets not being depreciated:** | | | | | |
| Construction in progress | $ 880,844 | $ 914,199 | $ 1,025,548 | $ - | $ 769,495 |
| Land | 1,063,615 | - | - | - | 1,063,615 |
| Total capital assets not being depreciated | 1,944,459 | 914,199 | 1,025,548 | - | 1,833,110 |
| **Capital assets being depreciated:** | | | | | |
| Equipment & fixtures | 785,913 | - | 150,436 | - | 635,477 |
| Vehicles | 321,930 | - | 17,130 | ( 33,189) | 271,611 |
| Buildings & improvements | 1,139,749 | - | - | - | 1,139,749 |
| Plant & collection system | 31,032,917 | - | - | ( 19,033) | 31,013,884 |
| Plant & distribution system | 2,834,489 | 1,025,548 | - | - | 3,860,037 |
| Total capital assets being depreciated | 36,114,998 | 1,025,548 | 167,566 | ( 52,222) | 36,920,758 |
| **Less accumulated depreciation:** | | | | | |
| Equipment & fixtures | 589,688 | 52,650 | 140,969 | - | 501,369 |
| Vehicles | 242,062 | 17,558 | 17,129 | ( 33,189) | 209,302 |
| Buildings & improvements | 880,515 | 28,494 | - | - | 909,009 |
| Plant & collection system | 2,971,069 | 761,264 | - | ( 3,807) | 3,728,526 |
| Plant & distribution system | 1,228,430 | 41,033 | - | - | 1,269,463 |
| Total accumulated depreciation | 5,911,764 | 900,999 | 158,098 | ( 36,996) | 6,617,669 |
| Total capital assets being depreciated, net | 30,203,234 | | | | 30,303,089 |
| **Utility Fund capital assets, net** | $32,147,693 | | | | $32,136,199 |

### Construction commitments

The Town has active construction projects as of June 30, 2013. At year-end, the government's commitments with contractors are as follows:

| Project | Spent-to-date | Remaining Commitment |
|---|---|---|
| Water projects | $ 769,495 | $ 250,505 |
| Fire Substation | 206,144 | 310,588 |
| Total | $ 975,639 | $ 561,093 |

## NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities

1. Pension Plan and Post-Employment Obligations

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

Plan Description – The Town of Beaufort contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The LGERS in 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 6.74% and 6.77% 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, 2013, 2012, and 2011, were $339,107, $320,808, and $295,816, respectively. The contributions made by the Town equaled the required contributions for each year.

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

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2012, 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.

## 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.

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25-7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment increases.

*Annual Pension Cost and Net Pension Obligation*
The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

| | | |
|---|---|---|
| Annual required contribution | $ | 24,550 |
| Interest on net pension obligation | | 5,340 |
| Adjustment to annual required contribution | ( | 6,646) |
| Annual pension cost | | 23,244 |
| Contributions made | | - |
| Increase (decrease) in net pension obligation | | 23,244 |
| Net pension obligation, beginning of year | | 106,803 |
| Net pension obligation, end of year | $ | 130,047 |

**NOTE 3 DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

| For Year Ended June 30 | Annual Pension Cost | Percentage of Annual APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2013 | $ 23,244 | 0% | $ 130,047 |
| 2012 | $ 21,321 | 0% | $ 106,803 |
| 2011 | $ 22,793 | 0% | $ 85,482 |

*Funded Status and Funding Progress*

As of December 31, 2012, the most recent actuarial date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was $192,049. The covered payroll (annual payroll of active employees covered by the plan) was $635,014, and the ratio of the UAAL to the covered payroll was 30.24%.

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

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

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

Funding Policy – Article 12E of the G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. The Town has elected to contribute to the Supplemental Retirement Income Plan for general employees as well as law enforcement officers. Contributions for the year ended June 30, 2013 were $158,382 which consisted of $132,662 from the Town and $25,720 from the employees.

## 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 does not contribute to the fund. Contribution requirements of the plan members and the State of North Carolina are established and may be amended by the N.C. General Assembly.

*(e) Other 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.

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

| | |
|---|---|
| Retirees and dependents receiving benefits | - |
| Terminated plan members entitled to but not yet receiving benefits | - |
| Active plan members | 67 |
| Total | 67 |

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

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

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

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

| | | |
|---|---|---|
| Annual required contribution | $ | 7,461 |
| Interest on net OPEB obligation | | 1,394 |
| Adjustment to annual required contribution | ( | 1,332) |
| Annual OPEB cost (expense) | | 7,523 |
| Contributions made | | - |
| Increase (decrease) in net OPEB obligation | | 7,523 |
| Net OPEB obligation, beginning of year | | 34,850 |
| Net OPEB obligation, end of year | $ | 42,373 |

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, 2013 were as follows:

| For Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| 2013 | $ 7,523 | 0% | $ 42,373 |
| 2012 | $ 10,509 | 0% | $ 34,850 |
| 2011 | $ 10,219 | 0% | $ 24,341 |

**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)

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

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

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

**NOTE 3 DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

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

3. Deferred Outflows and Inflows of Resources
Deferred inflows of resources at year-end is comprised of the following:

| | Unavailable Revenue | Unearned Revenue |
|---|---|---|
| Prepaid revenues (General Fund) | $ - | $ 5,984 |
| Taxes receivable (General Fund), less penalties | 140,815 | - |
| Total | $ 140,815 | $ 5,984 |

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

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

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

**NOTE 3 DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

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

5. Claims, Judgments and Contingent Liabilities
At June 30, 2013, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

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

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

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

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

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

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

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

## NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

6. Long-Term Obligations (continued)

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

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

In September 2011, the Town signed a promissory note to the North Carolina Clean Water Revolving loan for the Sycamore drive water project. The agreement calls for loan funding up to $935,000. As of June 30, 2013, the Town had drawn down $763,457. Upon completion, the loan will require annual principal payments of $46,750 each, plus 40 semi-annual payments of interest at 2.455% per annum.

The future minimum payments of the installment purchase as of June 30, 2013, including $325,533 of interest in the governmental activities and $3,217,950 of interest in business-type activities are as follows:

| | Governmental Activities | | Business-type Activities | |
|---|---|---|---|---|
| Year Ending June 30 | Principal | Interest | Principal | Interest |
| 2014 | $ 227,731 | $ 52,762 | $ 1,190,876 | $ 452,148 |
| 2015 | 198,321 | 46,710 | 1,136,697 | 348,079 |
| 2016 | 200,996 | 41,085 | 1,080,085 | 323,839 |
| 2017 | 196,208 | 35,388 | 1,080,085 | 300,427 |
| 2018 | 175,928 | 30,113 | 1,080,085 | 277,014 |
| Subsequent five years | 500,000 | 95,875 | 5,400,425 | 1,033,878 |
| Subsequent five years | 400,000 | 23,600 | 5,340,196 | 449,224 |
| Subsequent five years | - | - | 1,708,275 | 33,341 |
| Present value of the minimum lease payments | $ 1,899,184 | | $18,016,724 | |
| Total interest payments | | $ 325,533 | | $ 3,217,950 |

At June 30, 2013, the Town of Beaufort had a legal debt margin of $43,263,110.

**NOTE 3 DETAIL NOTES ON ALL FUNDS** (continued)

B. Liabilities (continued)

6. Long-Term Obligations (continued)

*(b) Changes in Long-term Obligations*

| | Beginning Balance | Increases | Decreases | Ending Balance | Current Portion of Balance |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| Compensated absences | $ 199,555 | $ - | $ 22,012 | $ 177,543 | $ 177,543 |
| Installment loans | 1,728,769 | 359,858 | 189,443 | 1,899,184 | 227,731 |
| Other post-employment benefits | 27,945 | 6,017 | - | 33,962 | - |
| Governmental activities long-term liabilities | $ 1,956,269 | $ 365,875 | $ 211,455 | $ 2,110,689 | $ 405,274 |
| Business-type activities: | | | | | |
| Compensated absences | $ 33,815 | $ - | $ 6,369 | $ 27,446 | $ 27,446 |
| Installment loans | 18,153,442 | 1,000,433 | 1,137,151 | 18,016,724 | 1,190,876 |
| Other post-employment benefits | 6,906 | 1,505 | - | 8,411 | - |
| Business-type activities long-term liabilities | $ 18,194,163 | $ 1,001,938 | $ 1,143,520 | $ 18,052,581 | $ 1,218,322 |

7. Interfund Balances and Transfers
Transfers to/from other funds for the year ended June 30, 2013 were comprised of:

| | |
|---|---|
| Transfer from General Fund to Fire District Fund for the Town's portion of Fire District expenditures | $ 584,000 |

8. Prior Period Adjustment
During the fiscal year ended June 30, 2013, the Town determined certain cost associated with a joint utility project was capitalized in error. These amounts were reimbursed by the North Carolina Department of Transportation and should not have been capitalized. Therefore, an adjustment to beginning net position for the governmental activities has been recorded to account for those items. The net effect of which decreased net position by $109,250 for the governmental activities.

## NOTE 4 FUND BALANCE

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

| | |
|---|---|
| Total fund balance – General Fund | $ 2,501,137 |
| Less: | |
| Stabilization by State Statute | 384,140 |
| Streets – Powell Bill | 576,099 |
| Remaining Fund Balance | $ 1,540,898 |

## NOTE 5 SUMMARY DISCLOSURE OF SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Federal and State Assisted Programs

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

## NOTE 6 CHANGE IN ACCOUNTING PRINCIPLE/RESTATEMENT

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and Statement 65, *Items Previously Reported as Assets and Liabilities,* in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources.

# REQUIRED SUPPLEMENTARY FINANCIAL DATA

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This section contains additional information required by generally accepted accounting principles.

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- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for the Retiree Health Plan.
- Schedule of Employer Contributions for the Retiree Health Plan.

Town of Beaufort, North Carolina
**Law Enforcement Officers' Special Separation Allowance**
**Required Supplementary Information**
For the Year Ended June 30, 2013

## Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll (b – a/c) |
|---|---|---|---|---|---|---|
| 12/31/06 | - | $ 70,381 | $ 70,381 | 0% | $ 559,924 | 12.57% |
| 12/31/07 | - | 83,395 | 83,395 | 0% | 578,743 | 14.41% |
| 12/31/08 | - | 101,474 | 101,474 | 0% | 631,673 | 16.06% |
| 12/31/09 | - | 165,620 | 165,620 | 0% | 683,977 | 24.21% |
| 12/31/10 | - | 160,774 | 160,774 | 0% | 653,278 | 24.61% |
| 12/31/11 | - | 182,154 | 182,154 | 0% | 662,670 | 27.49% |
| 12/31/12 | - | 192,049 | 192,049 | 0% | 635,014 | 30.24% |

## Schedule of Employer Contributions

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

Town of Beaufort, North Carolina
**Retiree Health Plan**
**Required Supplementary Information**
For the Year Ended June 30, 2013

## Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a % of Covered Payroll (b – a/c) |
|---|---|---|---|---|---|---|
| 12/31/12 | - | $68,147 | $68,147 | 0% | $2,505,607 | 2.7% |

## Schedule of Employer Contributions

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

# 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, 2013

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **Revenues** | | | |
| Ad valorem taxes: | | | |
| Current year | $ | $ 2,280,268 | $ |
| Prior years | | 86,692 | |
| Penalties and interest | | 19,130 | |
| Total | 2,373,676 | 2,386,090 | 12,414 |
| Other taxes & licenses: | | | |
| ABC net revenues | | 70,867 | |
| Local option sales tax | | 730,759 | |
| Privilege licenses | | 38,484 | |
| Total | 801,286 | 840,110 | 38,824 |
| Unrestricted intergovernmental: | | | |
| Payments in lieu of tax | | 32,898 | |
| Beer and wine tax | | 16,489 | |
| Utilities franchise tax | | 255,316 | |
| Total | 284,797 | 304,703 | 19,906 |
| Restricted intergovernmental: | | | |
| Powell Bill | | 120,762 | |
| Other grants | | 930 | |
| Total | 121,692 | 121,692 | - |
| Permits and fees: | | | |
| Building permits | | 86,461 | |
| Court and parking fees | | 3,292 | |
| Garbage/recycle fees | | 303,137 | |
| Total | 387,746 | 392,890 | 5,144 |
| Sales and service: | | | |
| Rents | | 211,415 | |
| Sales of cemetery lots | | 3,000 | |
| Total | 214,415 | 214,415 | - |

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, 2013

(continued)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Investment earnings: | | | |
| Interest | 7,000 | 3,293 | ( 3,707) |
| Other revenues: | | | |
| Administrative expense | | | |
| Reimbursement from Water/Sewer Funds | | 142,776 | |
| Private donations | | 20,000 | |
| Insurance proceeds | | 14,888 | |
| Miscellaneous | | 6,221 | |
| Total | 183,080 | 183,885 | 805 |
| Total revenues | 4,373,692 | 4,447,078 | 73,386 |
| **Expenditures** | | | |
| General government: | | | |
| Governing board: | | | |
| Governing board fees | | 16,793 | |
| Professional fees | | 51,298 | |
| Other expenditures | | 46,935 | |
| Total | 121,132 | 115,026 | 6,106 |
| Administration: | | | |
| Salaries and benefits | | 284,140 | |
| Operating expenditures | | 121,606 | |
| Total | 407,202 | 405,746 | 1,456 |
| Finance: | | | |
| Salaries and benefits | | 275,406 | |
| Operating expenditures | | 80,177 | |
| Total | 359,091 | 355,583 | 3,508 |
| Facilities maintenance: | | | |
| Salaries and benefits | | 99,131 | |
| Operating expenditures | | 146,530 | |
| Capital outlay | | 49,502 | |
| Total | 303,921 | 295,163 | 8,758 |
| Total general government | 1,191,346 | 1,171,518 | 19,828 |
| Public safety: | | | |
| Police: | | | |
| Salaries and benefits | | 916,035 | |
| Operating expenditures | | 186,905 | |
| Total | 1,129,448 | 1,102,940 | 26,508 |

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, 2013

(continued)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Planning and inspections: | | | |
| Salaries and benefits | | 186,436 | |
| Operating expenditures | | 36,936 | |
| Total | 225,381 | 223,372 | 2,009 |
| Total public safety | 1,354,829 | 1,326,312 | 28,517 |
| Public works: | | | |
| Salaries and benefits | | 299,862 | |
| Operating expenditures | | 145,770 | |
| Street lights | | 109,642 | |
| Street maintenance | | 119,938 | |
| Capital outlay | | 99,498 | |
| Total public works | 801,391 | 774,710 | 26,681 |
| Environmental protection: | | | |
| Sanitation: | | | |
| Salaries and benefits | | 176,110 | |
| Garbage/trash collection | | 147,603 | |
| Total environmental protection | 328,956 | 323,713 | 5,243 |
| Debt service: | | | |
| Principal | | 126,886 | |
| Interest | | 46,283 | |
| Total debt service | 173,170 | 173,169 | 1 |
| Total expenditures | 3,849,692 | 3,769,422 | 80,270 |
| Revenues over (under) expenditures | 524,000 | 677,656 | 153,656 |
| **Other financing sources (uses)** | | | |
| Transfer to Fire Fund | (584,000) | (584,000) | - |
| Transfer to Fire Substation Project | (142,113) | - | 142,113 |
| Total other financing sources (uses) | (726,113) | (584,000) | (142,113) |

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, 2013

(continued)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Fund balance appropriated | 202,113 | - | ( 202,113) |
| Net change in fund balance | $ - | 93,656 | $ 93,656 |
| Fund balance, beginning | | 2,407,481 | |
| Fund balance, ending | | $ 2,501,137 | |

# 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, 2013

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **REVENUES** | | | |
| Ad valorem taxes | $ | $ 322,385 | $ |
| Sales tax | | 78,000 | |
| Grants | | 14,279 | |
| Interest | | 422 | |
| Miscellaneous | | 2,430 | |
| Total revenues | 410,094 | 417,516 | 7,422 |
| **EXPENDITURES** | | | |
| Salaries and benefits | | 775,795 | |
| Operating expenditure | | 128,081 | |
| Capital outlay | | 376,444 | |
| Total | 919,089 | 1,280,320 | ( 361,231) |
| Debt service: | | | |
| Principal | 62,560 | 62,559 | 1 |
| Interest | 2,467 | 2,466 | 1 |
| Total | 65,027 | 65,025 | 2 |
| Total expenditures | 984,116 | 1,345,345 | ( 361,229) |
| Revenues over (under) expenditures | ( 574,022) | ( 927,829) | ( 353,807) |
| **OTHER FINANCING SOURCES** | | | |
| Loan proceeds | - | 359,858 | 359,858 |
| Transfer to capital project | ( 9,978) | - | 9,978 |
| Transfer from General Fund | 584,000 | 584,000 | - |
| Total other financing sources | 574,022 | 943,858 | 369,836 |
| Net change in fund balance | $ - | 16,029 | $ 16,029 |
| Fund balance, beginning | | 89,334 | |
| Fund balance, ending | | $ 105,363 | |

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, 2013

| | Project Authorization | Actual Prior Year | Actual Current Year | Actual Total to Date | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| State grants | $ 3,858,539 | $ 2,614,808 | $ 1,277,566 | $ 3,892,374 | $ 33,835 |
| **EXPENDITURES** | | | | | |
| Engineering | 707,000 | 381,636 | 104,019 | 485,655 | 221,345 |
| Construction | 3,403,000 | 2,233,172 | 1,126,260 | 3,359,432 | 43,568 |
| Total expenditures | 4,110,000 | 2,614,808 | 1,230,279 | 3,845,087 | 264,913 |
| Revenues under expenditures | ( 251,461) | - | 47,287 | 47,287 | 298,748 |
| **OTHER FINANCING SOURCES** | | | | | |
| Transfer from Enterprise Fund | 251,461 | - | - | - | ( 251,461) |
| Revenues and other financing over (under) expenditures | $ - | $ - | 47,287 | $ 47,287 | $ 47,287 |
| Fund balance, beginning | | | - | | |
| Fund balance, ending | | | $ 47,287 | | |

Town of Beaufort, North Carolina

**CAPITAL PROJECTS FUND, FIRE SUBSTATION PROJECT**
**SCHEDULE OF REVENUES, EXPENDITURES AND**
**CHANGES IN FUND BALANCE – BUDGET AND ACTUAL**

From Inception and For the Year Ended June 30, 2013

| | Project Authorization | Actual Prior Year | Actual Current Year | Actual Total to Date | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| County funds | $ 264,641 | $ - | $ 264,461 | $ 264,461 | ($ 180) |
| **EXPENDITURES** | | | | | |
| Engineering | 40,000 | - | 34,404 | 34,404 | 5,596 |
| Construction | 463,202 | - | 163,510 | 163,510 | 299,692 |
| Administration | 13,530 | - | 8,230 | 8,230 | 5,300 |
| Total expenditures | 516,732 | - | 206,144 | 206,144 | 310,588 |
| Revenues under expenditures | ( 252,091) | - | 58,317 | 58,317 | 310,408 |
| Other financing sources | | | | | |
| Transfer from Fire Fund | 109,978 | - | - | - | ( 109,978) |
| Transfer from General Fund | 142,113 | - | - | - | ( 142,113) |
| Total other financing | 252,091 | - | - | - | ( 252,091) |
| Revenues and other financing over (under) expenditures | $ - | $ - | 58,317 | $ 58,317 | $ 58,317 |
| Fund balance, beginning | | | - | | |
| Fund balance, ending | | | $ 58,317 | | |

# 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.

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

*Capital Project Funds* – These funds account for the Town's water and sewer capital project activities.

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES AND EXPENDITURES**
**BUDGET AND ACTUAL - (Non-GAAP)**
**UTILITY FUND**
For the Year Ended June 30, 2013

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **REVENUES** | | | |
| Operating revenues: | | | |
| Sewer service charges | $ | $ 2,130,480 | $ |
| Water service charges | | 823,425 | |
| Water and sewer tap fees | | 14,125 | |
| Water connection fees | | 19,841 | |
| Total | 2,964,250 | 2,987,871 | 23,621 |
| Non-operating revenues: | | | |
| Interest earned on investments | | 7,996 | |
| Impact fees | | 25,650 | |
| Other non-operating revenues | | 87,335 | |
| Total | 89,500 | 120,981 | 31,481 |
| Total revenues | 3,053,750 | 3,108,852 | 55,102 |
| **EXPENDITURES** | | | |
| Water treatment and distribution: | | | |
| Salaries and benefits | | 187,990 | |
| Administrative expense | | 71,388 | |
| Contract services | | 56,003 | |
| Insurance | | 15,410 | |
| Postage | | 13,631 | |
| Professional fees | | 12,193 | |
| Repairs and maintenance | | 18,734 | |
| Supplies and materials | | 79,222 | |
| Telephone and utilities | | 34,667 | |
| Vehicle expenses | | 14,938 | |
| County water purchase | | 40,929 | |
| Other | | 9,724 | |
| Total | 581,127 | 554,829 | 26,298 |
| Waste Water collection and treatment: | | | |
| Salaries and benefits | | 473,237 | |
| Administrative expense | | 71,388 | |
| Contract services | | 59,564 | |
| Insurance | | 75,813 | |
| Repairs and maintenance | | 64,623 | |
| Supplies and materials | | 36,418 | |
| Telephone and utilities | | 192,412 | |
| Vehicle expense | | 35,495 | |
| Other | | 21,859 | |
| Total | 1,086,125 | 1,030,809 | 55,316 |

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES AND EXPENDITURES**
**BUDGET AND ACTUAL - (Non-GAAP)**
**UTILITY FUND**
For the Year Ended June 30, 2013

(continued)

| | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Debt service: | | | |
| Principal | 1,137,151 | 1,137,151 | - |
| Interest | 374,997 | 433,234 | ( 58,237) |
| Total | 1,512,148 | 1,570,385 | ( 58,237) |
| Total expenditures | 3,179,400 | 3,156,023 | 23,377 |
| Revenues over (under) expenditures | ( 125,650) | ( 47,171) | 78,479 |
| **OTHER FINANCING SOURCES (USES)** | | | |
| Transfer to capital project | ( 15,000) | ( 14,340) | 660 |
| Fund balance appropriated | 140,650 | - | ( 140,650) |
| Revenues and other sources over (under) expenditures and other uses | $ - | ( 61,511) | ($ 61,511) |

**Reconciliation of modified accrual basis to full accrual basis:**

| | |
|---|---|
| Reconciling items: | |
| Decrease in accrued vacation | 6,369 |
| Transfer to capital projects | 14,340 |
| Change in allowance for doubtful accounts | ( 10,515) |
| Increase in accrued OPEB liability | ( 1,505) |
| Debt principal | 1,137,151 |
| Loss on disposal of fixed assets | ( 9,468) |
| Book value of assets transferred | ( 15,226) |
| Depreciation | ( 900,999) |
| Total reconciling items | 220,147 |
| Change in net position | $ 158,636 |

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, 2013

| | Project Authorization | Actual Prior Year | Actual Current Year | Actual Total to Date | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Proceeds from NC Dept. of Environment & Natural Resources Loan | $ 1,145,000 | $ 774,232 | $ 236,976 | $ 1,011,208 | ($ 133,792) |
| **EXPENDITURES** | | | | | |
| Administration | 10,000 | 41 | - | 41 | 9,959 |
| Engineering | 750,000 | 533,559 | 117,156 | 650,715 | 99,285 |
| Construction | 385,000 | 274,308 | 100,484 | 374,792 | 10,208 |
| Total expenditures | 1,145,000 | 807,908 | 217,640 | 1,025,548 | 119,452 |
| Revenues over (under) expenditures | - | ( 33,676) | 19,336 | ( 14,340) | ( 14,340) |
| **OTHER FINANCING SOURCES** | | | | | |
| Transfer from Utility Fund | - | - | 14,340 | 14,340 | 14,340 |
| Total revenues and other financing sources over (under) expenditures | $ - | ($ 33,676) | $ 33,676 | $ - | $ - |

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES AND EXPENDITURES**
**BUDGET AND ACTUAL - (Non-GAAP)**
**CAPITAL PROJECT FUND**
**SYCAMORE WELLHEAD & RAW WATER MAIN PROJECT**
From Inception and for the Year Ended June 30, 2013

| | Project Authorization | Actual Prior Year | Actual Current Year | Actual Total to Date | Variance Positive (Negative) |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Proceeds from NC Dept. of Environment & Natural Resources Loan | $ 935,000 | $ - | $ 763,457 | $ 763,457 | ($ 171,543) |
| **EXPENDITURES** | | | | | |
| Administration | 41,700 | 10,076 | 8,624 | 18,700 | 23,000 |
| Engineering & construction | 968,224 | 62,860 | 677,859 | 740,719 | 227,505 |
| Property acquisition | 10,076 | - | 10,076 | 10,076 | - |
| Total expenditures | 1,020,000 | 72,936 | 696,559 | 769,495 | 250,505 |
| Revenues over (under) expenditures | ( 85,000) | ( 72,936) | 66,898 | ( 6,038) | ( 78,962) |
| **OTHER FINANCING SOURCES** | | | | | |
| Transfer from Utility Fund | 85,000 | - | - | - | ( 85,000) |
| Total revenues and other financing sources over (under) expenditures | $ - | ($ 72,936) | $ 66,898 | ($ 6,038) | ($ 6,038) |

# 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, 2013

| Fiscal Year | Uncollected Balance June 30, 2012 | Additions | Collections and Credits | Uncollected Balance June 30, 2013 |
|---|---|---|---|---|
| 2012-2013 | $ - | $ 2,366,147 | $ 2,280,268 | $ 85,879 |
| 2011-2012 | 78,424 | - | 56,285 | 22,139 |
| 2010-2011 | 43,312 | 8,142 | 21,641 | 29,813 |
| 2009-2010 | 17,200 | - | 8,596 | 8,604 |
| 2008-2009 | 8,868 | - | 3,764 | 5,104 |
| 2007-2008 | 1,442 | 34 | 609 | 867 |
| 2006-2007 | 5,644 | - | 4,562 | 1,082 |
| 2005-2006 | 2,051 | - | 73 | 1,978 |
| 2004-2005 | 2,852 | - | 73 | 2,779 |
| 2003-2004 | 994 | - | 401 | 593 |
| 2002-2003 | 3,985 | - | 3,985 | - |
| | $ 164,772 | $ 2,374,323 | $ 2,380,257 | 158,838 |
| | Less: allowance for uncollectible accounts | | | ( 18,023) |
| | Ad valorem taxes receivable – net | | | $ 140,815 |

Reconciliation with revenues:

| | |
|---|---|
| Ad valorem taxes – General Fund | $ 2,386,090 |
| Reconciling items: | |
| Taxes written off | 13,297 |
| Penalties and interest | ( 19,130) |
| Net collections and credits | $ 2,380,257 |

Town of Beaufort, North Carolina

**ANALYSIS OF CURRENT TAX LEVY**

**TOWN-WIDE LEVY**

For the Year Ended June 30, 2013

| | Town-Wide | | | Total Levy | |
|---|---|---|---|---|---|
| | Property Valuation | Rate | Total Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| **Original levy** | | | | | |
| Property taxed at current rate | $ 777,351,161 | .30 | $ 2,332,055 | $ 2,282,470 | $ 49,585 |
| Property taxed at prior rate | 12,620,000 | .26 | 32,812 | - | 32,812 |
| Penalty | | | 1,981 | 1,981 | - |
| **Discoveries** | | | | | |
| Current year taxes | 1,680,403 | | 5,041 | 5,041 | - |
| Abatements | (1,913,843) | | (5,742) | (5,742) | |
| Total property valuation | $ 789,737,721 | | | | |
| Net levy | | | 2,366,147 | 2,283,750 | 82,397 |
| Uncollected taxes at June 30, 2013 | | | 85,879 | 73,050 | 12,829 |
| Current year's taxes collected | | | $ 2,280,268 | $ 2,210,700 | $ 69,568 |
| Current levy collection percentage | | | 96.37% | 96.80% | 84.43% |

# 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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Beaufort, North Carolina's basic financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. [2013-1]

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*.

Town of Beaufort's Response to Findings

The Town of Beaufort's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Carr, Riggs & Ingram, L.L.C.

New Bern, North Carolina
November 8, 2013

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# 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

## Report on Compliance for Each Major Federal Program

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, 2013. 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.

## Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

## Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Beaufort's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Beaufort's compliance.

## Opinion on Each Major Federal Program

In our opinion, Town of Beaufort complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Town of Beaufort is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Town of Beaufort's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 is a deficiency, or a 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section 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. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

New Bern, North Carolina
November 8, 2013

Town of Beaufort, North Carolina

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

For the Year Ended June 30, 2013

| Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Federal Direct and Pass-through Expenditures | State Expenditures |
|---|---|---|---|
| **Federal Grants** (Cash Program) | | | |
| Department of Commerce: | | | |
| Environmental Protection Agency | | | |
| Office of Water: | | | |
| Passed through NC Department of Environment and Natural Resources: | | | |
| Drinking Water State Revolving Loan | 66.458 | $ 914,199 | $ - |
| **State Grants** (Cash Programs) | | | |
| NC Department of Transportation: | | | |
| Powell bill | | - | 119,938 |
| | | $ 914,199 | $ 119,938 |

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, 2013. 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 | $ 17,849,322 |

Town of Beaufort, North Carolina
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
For the Year Ended June 30, 2013

## Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

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, 2013

## Section II. Financial Statement Findings

Significant Deficiency

2013-1 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 Fire District Fund exceeded authorized appropriations made by the governing board for public safety by $361,229.

Effect: The Fire District Fund budget was 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.

## 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, 2013

## Section II. Financial Statement Findings

Significant Deficiency

2013-1 Excess of expenditures over appropriation

Name of contact person: Finance Officer

Corrective Action: Management controls are now in place to allow management to quickly respond to changing variables by applying spending curtailments, or in the case of significant contingencies to provide proper budget amendments. Currently, budgets and spending are being monitored on an ongoing and timely basis.

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, 2013

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2012-1 Timely financial reporting

Status: Corrected

2012-2 Unbudgeted transfer

Status: Corrected

2012-3 Improper property tax budget calculation

Status: Corrected

2012-4 Excess of expenditures over appropriation

Status: This continues to be an ongoing issue for the Town. See 2013-1.

2012-5 Form LGC-203 not filed timely

Status: Corrected