

TOWN OF BEAUFORT, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2012

Town of Beaufort, North Carolina
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FINANCIAL SECTION

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Beaufort, North Carolina's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of June 30, 2012, and the respective changes in financial position, and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund and the Fire District Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the Town of Beaufort, North Carolina's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Law Enforcement Officer's Special Separation Allowance Schedules of Funding Progress and 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.

Our audit was conducted for the purposes of forming an opinion on the financial statements that collectively comprise the Town of Beaufort, North Carolina's basic financial statements. The individual fund statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is also 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 have 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, other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund statements, budgetary schedules, other schedules and the schedule of expenditures of federal and State awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pittard Perry & Crane, Inc.

New Bern, North Carolina
November 15, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2012

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, 2012. We encourage readers to use the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

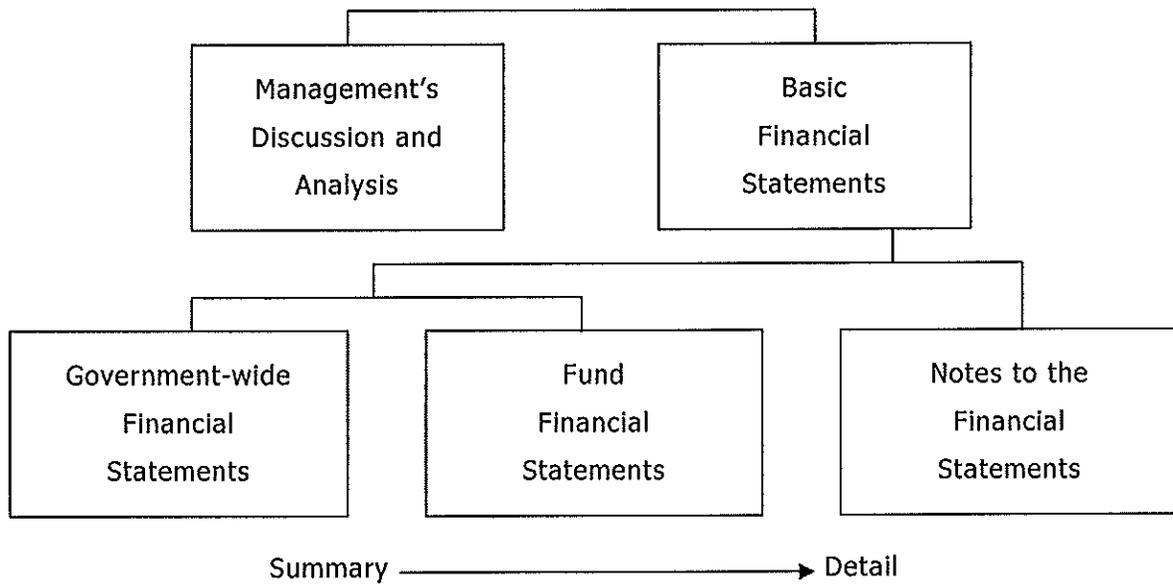
- The assets of the Town of Beaufort exceeded its liabilities at the close of the fiscal year by \$23,265,964. This amount was comprised of net assets in the governmental funds of \$4,842,025 and \$18,423,939 in business-type funds.
- The government's total net assets increased by \$550,827, which consisted of a decrease of governmental funds of \$433,848, and an increase in business-type funds of \$984,675.
- The increase in business-type fund net assets is due primarily to the final draw of funds from an available wastewater capital grant in the amount of \$709,524.
- As of the close of the current fiscal year, the Town of Beaufort's governmental funds reported combined ending fund balances of \$2,496,815, a decrease of \$1,036,616 in comparison with the prior year. Approximately 31% of this total amount, or \$772,663, is available for spending at the government's discretion (unassigned fund balance).
- Long-term debt in the governmental funds increased by a net amount of \$73,546 due to the addition of a loan for a new waste compactor for \$140,811 and principal reductions in the amount of \$67,625. Long-term debt in the enterprise funds decreased by a net amount of \$613,573 due primarily to a combination of additional loans of \$468,605 and principal payments of \$1,082,178.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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 Assets

Figure 2

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,869,004	\$ 2,462,070	\$ 2,739,661	\$ 1,948,956	\$ 5,608,665	\$ 4,411,026
Restricted assets	645,154	1,433,012	2,011,734	1,995,868	2,656,888	3,428,880
Capital assets	<u>4,158,146</u>	<u>3,457,875</u>	<u>32,147,693</u>	<u>32,560,769</u>	<u>36,305,839</u>	<u>36,018,644</u>
Total assets	<u>7,672,304</u>	<u>7,352,957</u>	<u>36,899,088</u>	<u>36,505,593</u>	<u>44,571,392</u>	<u>43,858,550</u>
Current liabilities	1,263,009	463,074	1,451,951	1,376,591	2,714,960	1,839,665
Long-term liabilities	<u>1,567,270</u>	<u>1,614,010</u>	<u>17,023,198</u>	<u>17,689,738</u>	<u>18,590,468</u>	<u>19,303,748</u>
Total liabilities	<u>2,830,279</u>	<u>2,077,084</u>	<u>18,475,149</u>	<u>19,066,329</u>	<u>21,305,428</u>	<u>21,143,413</u>
Net assets:						
Invested in capital assets net of related debt	2,429,377	1,802,652	13,994,251	13,793,754	16,423,628	15,596,406
Restricted	1,634,818	1,805,302	-	-	1,634,818	1,805,302
Unrestricted	<u>777,830</u>	<u>1,667,919</u>	<u>4,429,688</u>	<u>3,645,510</u>	<u>5,207,518</u>	<u>5,313,429</u>
Total net assets	<u>\$ 4,842,025</u>	<u>\$ 5,275,873</u>	<u>\$ 18,423,939</u>	<u>\$ 17,439,264</u>	<u>\$ 23,265,964</u>	<u>\$ 22,715,137</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Beaufort exceeded liabilities by \$23,265,964 as of June 30, 2012. The Town's net assets increased by \$550,827 for the fiscal year ended June 30, 2012.

Approximately 71% or \$16,423,628, of net assets reflect the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less related debt still outstanding that was issued to acquire or build those items. The Town of Beaufort uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

Of the Town of Beaufort's net assets at June 30, 2012, \$1,634,818, or 7%, represents resources that are subject to external restrictions on how they may be used. The unrestricted balance at year end was \$5,207,518.

Town of Beaufort's Changes in Net Assets

Figure 3

	Governmental Activities		Business-type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 384,714	\$ 279,147	\$ 2,995,757	\$ 2,992,189	\$ 3,380,471	\$ 3,271,336
Operating grants	308,074	116,459	-	-	308,074	116,459
Capital grants	28,632	179,334	709,524	50,000	738,156	229,334
General revenues						
Property taxes	2,373,095	2,146,932	-	-	2,373,095	2,146,932
Other taxes	850,427	1,339,289	-	-	850,427	1,339,289
Other	731,340	187,982	128,370	115,099	859,710	303,081
Total revenues	<u>4,676,282</u>	<u>4,249,143</u>	<u>3,833,651</u>	<u>3,157,288</u>	<u>8,509,933</u>	<u>7,406,431</u>
Expenses:						
General government	1,090,569	793,872	-	-	1,090,569	793,872
Public safety	2,456,482	2,393,655	-	-	2,456,482	2,393,655
Transportation	1,054,328	1,034,919	-	-	1,054,328	1,034,919
Environmental protection	386,333	426,153	-	-	386,333	426,153
Culture and recreation	32,610	130,512	-	-	32,610	130,512
Interest on long-term debt	27,586	6,224	-	-	27,586	6,224
Water and sewer	-	-	2,911,198	2,681,186	2,911,198	2,681,186
Total expenses	<u>5,047,908</u>	<u>4,785,335</u>	<u>2,911,198</u>	<u>2,681,186</u>	<u>7,959,106</u>	<u>7,466,521</u>
Increase in net assets before transfers	(371,626)	(536,192)	922,453	476,102	550,827	(60,090)
Transfers	(62,222)	-	62,222	-	-	-
Change in net assets	(433,848)	(536,192)	984,675	476,102	550,827	(60,090)
Prior period adjustment	-	-	-	(137,240)	-	(137,240)
Net assets, July 1	<u>5,275,873</u>	<u>5,812,065</u>	<u>17,439,264</u>	<u>17,100,402</u>	<u>22,715,137</u>	<u>22,912,467</u>
Net assets, June 30	<u>\$ 4,842,025</u>	<u>\$ 5,275,873</u>	<u>\$ 18,423,939</u>	<u>\$ 17,439,264</u>	<u>\$ 23,265,964</u>	<u>\$ 22,715,137</u>

Governmental activities. Governmental activities resulted in a decrease of the Town's net assets by \$433,848, due primarily to the continued downturn in the world economy and the impact on items such as sales tax, reduced development, and other factors. Management of the Town continues to monitor spending in an effort to keep increases modest.

Business-type activities: Business-type activities increased the Town's net assets by \$984,675. Increases primarily resulted from the \$709,524 capital grant and an increase in miscellaneous revenues of \$128,370.

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 primary operating fund of the Town of Beaufort. At the end of the current fiscal year, total fund balance of the General Fund was \$2,407,481, of which \$1,418,522 was unassigned and available for use by the Board of Commissioners. This unreserved amount represents 33% of total General Fund expenditures for the year.

General Fund Budgetary Highlights: During the fiscal year, the Town revised the budget seven 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 assets of the Water and Sewer Funds at the end of the fiscal year amounted to \$4,429,688.

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, 2012, totaled \$36,305,839 (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	
	2012	2011	2012	2011	2012	2011
Land	\$ 1,461,005	\$ 349,695	\$ 1,063,615	\$ 1,063,615	2,524,620	\$ 1,413,310
Construction in progress	223,573	1,562,818	880,844	1,562,064	1,104,417	3,124,882
Equipment	183,116	167,139	196,225	250,222	379,341	417,361
Vehicles	563,800	441,654	79,868	53,030	643,668	494,684
Buildings & improvements	1,008,057	171,240	259,234	324,845	1,267,291	496,085
Infrastructure	718,595	765,329	29,667,907	29,306,993	30,386,502	30,072,322
Total assets	<u>\$ 4,158,146</u>	<u>\$ 3,457,875</u>	<u>\$ 32,147,693</u>	<u>\$ 32,560,769</u>	<u>\$ 36,305,839</u>	<u>\$ 36,018,644</u>

Long-term Debt. Following is a summary of outstanding long-term obligations as of June 30, 2012 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	
	2012	2011	2012	2011	2012	2011
Installment loans	<u>\$ 1,728,769</u>	<u>\$ 1,655,223</u>	<u>\$ 18,153,442</u>	<u>\$ 18,767,015</u>	<u>\$ 19,882,211</u>	<u>\$ 20,422,238</u>

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Beaufort is \$43,238,374.

Economic Factors and Next Year's Budgets and Rates

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

The projected revenues for fiscal year 2013 were conservatively estimated, and a property tax collection rate of 99% was utilized. This collection rate is higher (4%) than past revenue estimate methodology. The General Fund revenues were estimated as being generally at a no-increase level from the prior fiscal year. The Town used \$147,036 of Water Fund reserve and \$48,022 of Sewer Fund reserve to balance the fiscal year 2013 General Fund Budget.

The Town increased both the water and sewer fixed rates \$2 each monthly per customer for fiscal year 2013. The tax rate was increased to .30 per \$100 for fiscal year 2013.

In preparation of the fiscal year 2013 budget, the Town paid particular attention to the expenditure requests and made appropriate decisions in the funding of certain line items so as to assure the maintaining of core Town services at an existing or acceptable level. No salary adjustments were made to employee compensation, and employee benefit programs were maintained. No new initiatives, programs, or employees were funded in the fiscal year 2013 budget.

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Town of Beaufort, North Carolina
STATEMENT OF NET ASSETS
June 30, 2012

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and investments	\$ 1,666,007	\$ 2,420,540	\$ 4,086,547
Ad valorem taxes receivable (net)	143,333	-	143,333
Accounts receivable	1,059,664	319,121	1,378,785
Restricted cash and investments	645,154	2,011,734	2,656,888
Total current assets	3,514,158	4,751,395	8,265,553
Capital assets			
Construction in progress	223,573	880,844	1,104,417
Land	1,461,005	1,063,615	2,524,620
Capital assets, net of depreciation	2,473,568	30,203,234	32,676,802
Total capital assets	4,158,146	32,147,693	36,305,839
Total assets	\$ 7,672,304	\$ 36,899,088	\$ 44,571,392
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 675,705	\$ 134,720	\$ 810,425
Cash overdraft	198,305	-	198,305
Customer deposits	-	146,266	146,266
Accrued vacation payable	199,555	33,815	233,370
Current portion of long-term liabilities	189,444	1,137,150	1,326,594
Total current liabilities	1,263,009	1,451,951	2,714,960
Long-term liabilities:			
Due in more than one year	1,567,270	17,023,198	18,590,468
Total liabilities	2,830,279	18,475,149	21,305,428
NET ASSETS			
Invested in capital assets, net of related debt	2,429,377	13,994,251	16,423,628
Restricted for:			
Stabilization by State Statue	1,059,664	-	1,059,664
Streets	575,154	-	575,154
Unrestricted	777,830	4,429,688	5,207,518
Total net assets	\$ 4,842,025	\$ 18,423,939	\$ 23,265,964

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, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 1,090,569	\$ -	\$ -	\$ -
Public safety	2,456,482	88,411	13,123	-
Transportation	1,054,328	-	281,283	-
Environmental protection	386,333	296,303	13,668	28,632
Cultural and recreation	32,610	-	-	-
Interest on long-term debt	<u>27,586</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>5,047,908</u>	<u>384,714</u>	<u>308,074</u>	<u>28,632</u>
Business-type activities:				
Water	749,091	887,306	-	-
Sewer	<u>2,162,107</u>	<u>2,108,451</u>	<u>-</u>	<u>709,524</u>
Total business-type activities	<u>2,911,198</u>	<u>2,995,757</u>	<u>-</u>	<u>709,524</u>
Total primary government	<u>\$ 7,959,106</u>	<u>\$ 3,380,471</u>	<u>\$ 308,074</u>	<u>\$ 738,156</u>

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

 Transfers

 Total general revenues and transfers

 Change in net assets

 Net assets, beginning

 Net assets, ending

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
(\$ 1,090,569)	\$ -	(\$ 1,090,569)
(2,354,948)	-	(2,354,948)
(773,045)	-	(773,045)
(47,730)	-	(47,730)
(32,610)	-	(32,610)
(27,586)	-	(27,586)
(4,326,488)	-	(4,326,488)
-	138,215	138,215
-	655,868	655,868
-	794,083	794,083
(4,326,488)	794,083	(3,532,405)
2,373,095	-	2,373,095
850,427	-	850,427
271,500	-	271,500
3,362	4,750	8,112
456,478	123,620	580,098
3,954,862	128,370	4,083,232
(62,222)	62,222	-
3,892,640	190,592	4,083,232
(433,848)	984,675	550,827
5,275,873	17,439,264	22,715,137
<u>\$ 4,842,025</u>	<u>\$ 18,423,939</u>	<u>\$ 23,265,964</u>

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

Town of Beaufort, North Carolina
BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2012

Exhibit 3

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Fire District Fund	Hwy 70 Utility Relocation		
ASSETS					
Cash and investments	\$ 1,634,052	\$ 31,955	\$ -	\$ -	\$ 1,666,007
Restricted cash	575,154	70,000	-	-	645,154
Ad valorem taxes receivable (net)	143,333	-	-	-	143,333
Accounts receivable	<u>413,805</u>	<u>-</u>	<u>645,859</u>	<u>-</u>	<u>1,059,664</u>
Total assets	<u>\$ 2,766,344</u>	<u>\$ 101,955</u>	<u>\$ 645,859</u>	<u>\$ -</u>	<u>\$ 3,514,158</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 215,530	\$ 12,621	\$ 447,554	\$ -	\$ 675,705
Cash overdraft	-	-	198,305	-	198,305
Deferred revenues	<u>143,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,333</u>
Total liabilities	<u>358,863</u>	<u>12,621</u>	<u>645,859</u>	<u>-</u>	<u>1,017,343</u>
Fund balances:					
Restricted					
Stabilization by State Statue	413,805	-	645,859	-	1,059,664
Streets	575,154	-	-	-	575,154
Assigned					
Public safety	-	89,334	-	-	89,334
Unassigned	<u>1,418,522</u>	<u>-</u>	<u>(645,859)</u>	<u>-</u>	<u>772,663</u>
Total fund balances	<u>2,407,481</u>	<u>89,334</u>	<u>-</u>	<u>-</u>	<u>2,496,815</u>
Total liabilities and fund balances	<u>\$ 2,766,344</u>	<u>\$ 101,955</u>	<u>\$ 645,859</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	4,158,146
Liabilities for earned but deferred revenues in fund statements	143,333
Some liabilities, including notes payable, accrued interest and accrued vacation are not due and payable in the current period and therefore are not reported in the fund statements	(1,956,269)
Net assets of governmental activities	<u>\$ 4,842,025</u>

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

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

Exhibit 4

	Major Funds			Total Non-Major Funds	Total Governmental Funds
	General Fund	Fire District Fund	Hwy 70 Utility Relocation		
REVENUES					
Ad valorem taxes	\$ 2,049,125	\$ 326,123	\$ -	\$ -	\$ 2,375,248
Other taxes and licenses	780,427	70,000	-	-	850,427
Unrestricted intergovernmental	271,500	-	-	-	271,500
Restricted intergovernmental	296,847	11,227	2,534,190	-	2,842,264
Permits and fees	384,714	-	-	-	384,714
Sales and service	166,245	-	-	-	166,245
Investment earnings	3,320	42	-	-	3,362
Other	<u>264,459</u>	<u>5,641</u>	<u>-</u>	<u>-</u>	<u>270,100</u>
Total revenues	<u>4,216,637</u>	<u>413,033</u>	<u>2,534,190</u>	<u>-</u>	<u>7,163,860</u>
EXPENDITURES					
Current:					
General government	1,063,679	-	-	520,255	1,583,934
Public safety	1,459,879	910,042	-	-	2,369,921
Public works	1,106,378	-	-	-	1,106,378
Environmental protection	526,473	-	2,505,558	-	3,032,031
Culture and recreation	124,982	-	-	-	124,982
Debt service:					
Principal	6,612	60,652	-	-	67,264
Interest	<u>23,213</u>	<u>4,373</u>	<u>-</u>	<u>-</u>	<u>27,586</u>
Total expenditures	<u>4,311,216</u>	<u>975,067</u>	<u>2,505,558</u>	<u>520,255</u>	<u>8,312,096</u>
Excess (deficiency) of revenues over expenditures	(94,579)	(562,034)	28,632	(520,255)	(1,148,236)
OTHER FINANCING SOURCES (USES)					
Sale of fixed assets	33,031	-	-	-	33,031
Loan proceeds	140,811	-	-	-	140,811
Transfer to other funds	(740,566)	-	-	-	(740,566)
Transfers from other funds	<u>-</u>	<u>562,034</u>	<u>-</u>	<u>116,310</u>	<u>678,344</u>
Total other financing sources (uses)	(566,724)	562,034	-	116,310	111,620
Net change in fund balance	(661,303)	-	28,632	(403,945)	(1,036,616)
Fund balance, beginning	<u>3,068,784</u>	<u>89,334</u>	<u>(28,632)</u>	<u>403,945</u>	<u>3,533,431</u>
Fund balance, ending	<u>\$ 2,407,481</u>	<u>\$ 89,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,496,815</u>

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

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

Exhibit 4 (continued)

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

Net changes in fund balances – total governmental funds	(\$ 1,036,616)
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Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period	700,271
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund statements:

Change in deferred revenues	(2,153)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds:

Change in accrued vacation	(13,298)
Other post-employment benefits	(8,505)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	(73,547)
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Total changes in net assets of governmental activities	(\$ 433,848)
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The accompanying notes are an integral part of the financial statements.

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND AND SPECIAL REVENUE FUND
For the Year Ended June 30, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
REVENUES				
Ad valorem taxes	\$ 2,313,522	\$ 2,313,522	\$ 2,049,125	(\$ 264,397)
Other taxes and licenses	725,000	725,000	780,427	55,427
Unrestricted intergovernmental	318,000	318,000	271,500	(46,500)
Restricted intergovernmental	110,000	351,282	296,847	(54,435)
Permits and fees	410,000	410,000	384,714	(25,286)
Sales and service	136,000	136,000	166,245	30,245
Investment earnings	25,000	25,000	3,320	(21,680)
Other	72,000	222,174	264,459	42,285
Total revenues	<u>4,109,522</u>	<u>4,500,978</u>	<u>4,216,637</u>	<u>(284,341)</u>
EXPENDITURES				
Current:				
General government	1,014,266	1,324,352	1,063,679	260,673
Public safety	1,410,850	1,532,425	1,459,879	72,546
Public works	816,600	1,244,221	1,106,378	137,843
Environmental protection	382,806	523,806	526,473	(2,667)
Culture and recreation	5,000	106,174	124,982	(18,808)
Debt service:				
Principal	70,000	70,000	6,612	63,388
Interest	-	-	23,213	(23,213)
Total expenditures	<u>3,699,522</u>	<u>4,800,978</u>	<u>4,311,216</u>	<u>489,762</u>
Revenues over (under) expenditures	<u>410,000</u>	<u>(300,000)</u>	<u>(94,579)</u>	<u>205,421</u>
Other financial sources (uses):				
Sale of fixed assets	-	30,000	33,031	3,031
Loan proceeds	-	141,000	140,811	(189)
Transfers to other funds	(660,000)	(669,000)	(740,566)	(71,566)
Total other financing sources (uses)	<u>(660,000)</u>	<u>(498,000)</u>	<u>(566,724)</u>	<u>(68,724)</u>
Revenues and other sources over (under) expenditures and other uses	<u>(250,000)</u>	<u>(798,000)</u>	<u>(661,303)</u>	<u>136,697</u>
Appropriated fund balance	<u>250,000</u>	<u>798,000</u>	<u>-</u>	<u>(798,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(661,303)</u>	<u>(\$ 661,303)</u>
Fund balance, beginning			<u>3,068,784</u>	
Fund balance, ending			<u>\$ 2,407,481</u>	

Fire Fund

Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
\$ 330,000	\$ 330,000	\$ 326,123	(\$ 3,877)
55,000	55,000	70,000	15,000
-	-	-	-
-	26,372	11,227	(15,145)
-	-	-	-
-	-	-	-
2,000	2,000	42	(1,958)
880	880	5,641	4,761
<u>387,880</u>	<u>414,252</u>	<u>413,033</u>	<u>(1,219)</u>
-	-	-	-
982,854	1,018,226	910,042	108,184
-	-	-	-
-	-	-	-
-	-	-	-
60,652	60,652	60,652	-
4,374	4,374	4,373	1
<u>1,047,880</u>	<u>1,083,252</u>	<u>975,067</u>	<u>108,185</u>
(660,000)	(669,000)	(562,034)	106,966
-	-	-	-
-	-	-	-
<u>660,000</u>	<u>669,000</u>	<u>562,034</u>	<u>(106,966)</u>
<u>660,000</u>	<u>669,000</u>	<u>562,034</u>	<u>(106,966)</u>
-	-	-	-
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
		<u>89,334</u>	
		<u>\$ 89,334</u>	

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

Town of Beaufort, North Carolina
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

Exhibit 6

	Major Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and investments	\$ 1,429,913	\$ 990,627	\$ 2,420,540
Accounts receivable	84,146	234,975	319,121
Restricted cash and cash equivalents	<u>1,131,674</u>	<u>880,060</u>	<u>2,011,734</u>
Total current assets	<u>2,645,733</u>	<u>2,105,662</u>	<u>4,751,395</u>
Capital assets:			
Construction in progress	880,844	-	880,844
Land	817,987	245,628	1,063,615
Capital assets, net of depreciation	<u>1,948,611</u>	<u>28,254,623</u>	<u>30,203,234</u>
Total capital assets	<u>3,647,442</u>	<u>28,500,251</u>	<u>32,147,693</u>
Total assets	<u>\$ 6,293,175</u>	<u>\$ 30,605,913</u>	<u>\$ 36,899,088</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 47,663	\$ 87,057	\$ 134,720
Customer deposits	146,266	-	146,266
Accrued vacation	6,164	27,651	33,815
Current portion of long-term debt	<u>107,625</u>	<u>1,029,525</u>	<u>1,137,150</u>
Total current liabilities	<u>307,718</u>	<u>1,144,233</u>	<u>1,451,951</u>
Non-current liabilities:			
Long-term debt	941,635	16,074,657	17,016,292
Other post-employment benefits	<u>1,650</u>	<u>5,256</u>	<u>6,906</u>
Total non-current liabilities	<u>943,285</u>	<u>16,079,913</u>	<u>17,023,198</u>
Total liabilities	<u>1,251,003</u>	<u>17,224,146</u>	<u>18,475,149</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,598,182	11,396,069	13,994,251
Unrestricted	<u>2,443,990</u>	<u>1,985,698</u>	<u>4,429,688</u>
Total net assets	<u>\$ 5,042,172</u>	<u>\$ 13,381,767</u>	<u>\$ 18,423,939</u>

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

Town of Beaufort, North Carolina
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

Exhibit 7

	Major Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
OPERATING REVENUES			
Charges for services	\$ 826,927	\$ 2,090,451	\$ 2,917,378
Tap fees	35,505	18,000	53,505
Connection fees	24,874	-	24,874
Total operating revenues	<u>887,306</u>	<u>2,108,451</u>	<u>2,995,757</u>
OPERATING EXPENSES			
Water treatment and distribution	631,646	-	631,646
Waste collection and treatment	-	1,001,433	1,001,433
Depreciation	96,819	810,968	907,787
Total operating expenses	<u>728,465</u>	<u>1,812,401</u>	<u>2,540,866</u>
Operating income	<u>158,841</u>	<u>296,050</u>	<u>454,891</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest earned on investments	2,757	1,993	4,750
Impact fees	7,600	5,850	13,450
Other non-operating revenues	86,463	14,253	100,716
Interest on long-term debt	(20,626)	(349,706)	(370,332)
Total non-operating revenue (expenses)	<u>76,194</u>	<u>(327,610)</u>	<u>(251,416)</u>
Income (loss) before contributions and transfers	235,035	(31,560)	203,475
Insurance reimbursement	-	9,454	9,454
Transfer from General Fund	62,222	-	62,222
Capital contributions	-	709,524	709,524
Change in net assets	297,257	687,418	984,675
Total net assets, beginning	<u>4,744,915</u>	<u>12,694,349</u>	<u>17,439,264</u>
Total net assets, ending	<u>\$ 5,042,172</u>	<u>\$ 13,381,767</u>	<u>\$ 18,423,939</u>

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

Town of Beaufort, North Carolina
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
For the Year Ended June 30, 2012

Exhibit 8

	Major Funds		
	Water Fund	Sewer Fund	Total Enterprise Funds
Cash flows from operating activities			
Cash received from customers	\$ 881,662	\$ 2,098,491	\$ 2,980,153
Cash paid for goods and services	(413,343)	(527,878)	(941,221)
Cash paid to or on behalf of employees	(208,206)	(469,432)	(677,638)
Customer deposits received	28,001	-	28,001
Customer deposits returned	(19,827)	-	(19,827)
Net cash provided (used) by operating activities	<u>268,287</u>	<u>1,101,181</u>	<u>1,369,468</u>
Cash flows from noncapital financing activities			
Capital contributions	-	709,524	709,524
Transfer from other funds	<u>62,222</u>	-	<u>62,222</u>
Net cash provided (used) by noncapital financing activities	<u>62,222</u>	<u>709,524</u>	<u>771,746</u>
Cash flows from capital and related financing activities			
Impact fees	7,600	5,850	13,450
Acquisition of capital assets	(476,814)	(17,897)	(494,711)
Installment notes issued	468,605	-	468,605
Principal paid on bonds	(52,654)	(1,029,525)	(1,082,179)
Interest paid on bonds	(20,626)	(349,706)	(370,332)
Insurance reimbursement	-	9,454	9,454
Other receipts	<u>86,463</u>	<u>14,253</u>	<u>100,716</u>
Net cash provided (used) by capital and financing activities	<u>12,574</u>	<u>(1,367,571)</u>	<u>(1,354,997)</u>
Cash flows from investing activities			
Interest earned	<u>2,757</u>	<u>1,993</u>	<u>4,750</u>
Net increase (decrease) in cash and cash equivalents	345,840	445,127	790,967
Balances, beginning of year	<u>2,215,747</u>	<u>1,425,560</u>	<u>3,641,307</u>
Balances, ending of year	<u>\$ 2,561,587</u>	<u>\$ 1,870,687</u>	<u>\$ 4,432,274</u>
Reconciliation of operating income to net cash provided by operations			
Operating income	\$ 158,841	\$ 296,050	\$ 454,891
Adjustments to reconcile income to cash provided by operations:			
Depreciation	96,819	810,968	907,787
(Increase) decrease in accounts receivable	(5,644)	(9,960)	(15,604)
Increase (decrease) in accounts payable	11,168	4,432	15,600
Increase (decrease) in accrued vacation	(1,569)	(1,815)	(3,384)
Increase (decrease) in customer deposits	8,174	-	8,174
Increase (decrease) in OPEB liability	498	1,506	2,004
Total	<u>109,446</u>	<u>805,131</u>	<u>914,577</u>
Net cash provided by operating activities	<u>\$ 268,287</u>	<u>\$ 1,101,181</u>	<u>\$ 1,369,468</u>

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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.

The Town reports the following non-major governmental funds:

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

The Town reports the following major enterprise funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected vehicle taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General, Special Revenue, and Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinaries are adopted for the Town Hall Capital Project Fund, the Highway 70 Utility Relocation Capital Project Fund and the Enterprise Capital Project Fund. 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 \$2,500. All amendments must be approved by the governing board. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

1. Deposits and Investments

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowance for Doubtful Accounts

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. The minimum capitalization cost is \$2,500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired after July 1, 2003, consist of the road network and drainage system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

7. Long-term Obligations

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

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Compensated Absences

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

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

9. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Noncompliance with North Carolina General Statutes

The Town is in violation of General Statute 159-28(a), whereas the General Fund made a transfer to the Water Fund that was not budgeted. Henceforth, the Town will ensure all transfers are properly budgeted prior to the transfer of funds.

The Town is in violation of General Statute 159-11, whereas the Town calculated its budgeted property tax revenues based on an incorrect valuation base and failed to amend its budget.

The Town is in violation of General Statute 159-33, whereas the Town did not file its Form LGC-203 report for the six months ended December 31, 2011 on a timely basis.

2. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2012, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for environmental protection by \$2,667 and culture and recreation by \$18,808. Also, the expenditures made in the Town's Water Fund exceeded the authorized appropriations made by the governing board by \$75,328. Management and the Board will more closely review the budget reports to ensure compliance in future years.

NOTE 3 DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized using the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

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.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

1. Deposits (continued)

At June 30, 2012, the Town's deposits had a carrying amount of \$2,349,379 and a bank balance of \$2,354,805. 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, 2012, the Town's petty cash fund totaled \$400.

2. Investments

At June 30, 2012, the Town had \$4,195,351 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowance for Doubtful Accounts

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

Fund	6-30-12
General Fund	
Taxes receivable	\$ 21,439
Accounts receivable	4,338
Total	25,777
Enterprise Funds	
Total	\$ 70,437

4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 1,562,818	\$ 634,577	\$ 1,973,822	\$ 223,573
Land	349,695	1,111,310	-	1,461,005
Total capital assets not being depreciated	1,912,513	1,745,887	1,973,822	1,684,578
Capital assets being depreciated:				
Equipment & fixtures	945,368	56,133	40,699	960,802
Vehicles	2,065,688	263,208	90,282	2,238,614
Buildings & improvements	927,238	862,512	370,105	1,419,645
Infrastructure	899,745	-	13,850	885,895
Total capital assets being depreciated	4,838,039	1,181,853	514,936	5,504,956
Less accumulated depreciation:				
Equipment & fixtures	778,229	40,156	40,699	777,686
Vehicles	1,624,034	141,062	90,282	1,674,814
Buildings & improvements	755,998	25,695	370,105	411,588
Infrastructure	134,416	33,836	952	167,300
Total accumulated depreciation	3,292,677	240,749	502,038	3,031,388
Total capital assets being depreciated, net	1,545,362	\$ 941,104	\$ 12,898	2,473,568
Governmental activities capital assets, net	\$ 3,457,875			\$ 4,158,146

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

Depreciation expense was charged to the governmental functions as follows:

General government	\$ 28,250
Public safety	117,766
Public works	62,123
Culture and recreation	<u>32,610</u>
Total	<u>\$ 240,749</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Water Fund:</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,562,064	\$ 451,135	\$ 1,132,355	\$ 880,844
Land	<u>817,987</u>	<u>-</u>	<u>-</u>	<u>817,987</u>
Total capital assets not being depreciated	<u>2,380,051</u>	<u>451,135</u>	<u>1,132,355</u>	<u>1,698,831</u>
Capital assets being depreciated:				
Equipment & fixtures	287,502	-	50,912	236,590
Vehicles	111,289	25,679	-	136,968
Buildings & improvements	1,139,749	-	-	1,139,749
Plant & distribution system	<u>1,702,135</u>	<u>1,132,354</u>	<u>-</u>	<u>2,834,489</u>
Total capital assets being depreciated	<u>3,240,675</u>	<u>1,158,033</u>	<u>50,912</u>	<u>4,347,796</u>
Less accumulated depreciation:				
Equipment & fixtures	208,598	18,208	50,912	175,894
Vehicles	111,289	3,057	-	114,346
Buildings & improvements	814,904	65,611	-	880,515
Plant & distribution system	<u>1,218,488</u>	<u>9,942</u>	<u>-</u>	<u>1,228,430</u>
Total accumulated depreciation	<u>2,353,279</u>	<u>96,818</u>	<u>50,912</u>	<u>2,399,185</u>
Total capital assets being depreciated, net	<u>887,396</u>			<u>1,948,611</u>
Water Fund capital assets, net	<u>\$ 3,267,447</u>			<u>\$ 3,647,442</u>

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets (continued)

4. Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Sewer Fund:</i>				
Capital assets not being depreciated:				
Land	\$ <u>245,628</u>	\$ -	\$ -	\$ <u>245,628</u>
 Capital assets being depreciated:				
Equipment & fixtures	599,800	-	50,477	549,323
Vehicles	204,524	17,894	37,456	184,962
Plant & collection systems	<u>31,032,917</u>	<u>-</u>	<u>-</u>	<u>31,032,917</u>
Total capital assets being depreciated	<u>31,837,241</u>	<u>17,894</u>	<u>87,933</u>	<u>31,767,202</u>
 Less accumulated depreciation:				
Equipment & fixtures	428,482	35,789	50,477	413,794
Vehicles	151,494	13,678	37,456	127,716
Plant & collection systems	<u>2,209,571</u>	<u>761,498</u>	<u>-</u>	<u>2,971,069</u>
Total accumulated depreciation	<u>2,789,547</u>	<u>810,965</u>	<u>87,933</u>	<u>3,512,579</u>
 Total capital assets being depreciated, net	 <u>29,047,694</u>			 <u>28,254,623</u>
 Sewer Fund capital assets, net	 <u>\$29,293,322</u>			 <u>\$28,500,251</u>

Construction commitments

The Town has active construction projects as of June 30, 2012. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Water projects	\$ <u>880,844</u>	\$ <u>337,092</u>

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
 For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

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

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

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

Funding Policy – Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.00% and 7.05% 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, 2012, 2011, and 2010, were \$320,808, \$295,816, and \$235,822, respectively. The contributions made by the Town equaled the required contributions for each year.

(b) Law Enforcement Officers' Special Separation Allowance

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance membership consisted of:

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

A separate report was not issued for the plan.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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, 2011 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	\$	22,146
Interest on net pension obligation		4,274
Adjustment to annual required contribution	(5,099)
Annual pension cost		21,321
Contributions made		-
Increase (decrease) in net pension obligation		21,321
Net pension obligation, beginning of year		85,482
Net pension obligation, end of year	\$	106,803

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

<u>For Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>Percentage of Annual APC Contributed</u>	<u>Net Pension Obligation</u>
2012	\$ 21,321	0%	\$ 106,803
2011	\$ 22,793	0%	\$ 85,482
2010	\$ 15,002	0%	\$ 62,689

Funded Status and Funding Progress

As of December 31, 2011, the most recent actuarial date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$182,158. The covered payroll (annual payroll of active employees covered by the plan) was \$662,670, and the ratio of the UAAL to the covered payroll was 27.49%.

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. Contributions for the year ended June 30, 2012 were \$86,320 which consisted of \$46,427 from the Town and \$39,893 from the employees.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

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

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

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

Plan Description – Under the terms of a Town resolution, the Town administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides post-employment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least twenty years of creditable service with the Town.

The retiree pays the full cost of coverage for these benefits through private insurers. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Funding Policy – By Town resolution, the retiree pays the full cost of coverage for the healthcare benefits provided to qualified retirees. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis. Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In the fiscal year ended June 30, 2012, the Town had no contributions.

Annual OPEB Cost and Net OPEB Obligation – The Town's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

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

Annual required contribution	\$	10,445
Interest on net OPEB obligation		404
Adjustment to annual required contribution	(340)
Annual OPEB cost (expense)		10,509
Contributions made		-
Increase (decrease) in net OPEB obligation		10,509
Net OPEB obligation, beginning of year		24,341
Net OPEB obligation, end of year	\$	34,850

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2010 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 10,509	0%	\$ 34,850
2011	\$ 10,219	0%	\$ 24,341
2010	\$ 14,122	0%	\$ 14,122

Funded Status and Funding Progress – As of June 30, 2012, the actuarial accrued liability for benefits was \$193,010, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,659,161, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 7.26%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information about the actuarial value of plan assets and the actuarial accrued liabilities for benefits.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

1. Pension Plan Obligations (continued)

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

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

The following simplifying assumptions were made:

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

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

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

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

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

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

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

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

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial unfunded liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 28 years.

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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 Revenues

The balance of deferred revenues in the fund financial statements at June 30, 2012 consisted of property taxes receivable, net.

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 three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$8 million per occurrence, workers' compensation coverage up to the statutory limits, and employee health coverage up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, and auto liability in excess of \$500,000 up to \$500,000 for property, and \$250,000 up to \$5 million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit of \$1 million for the aggregate losses in a single year. After the property pool has paid out \$1 million, then the pool will be liable for a \$10,000 per claim maintenance deductible on future property losses for that year. The remainder of each claim will be borne by the re-insurer. The Town does carries flood insurance through the National Flood Insurance Plan (NFIP). Because the Town is in an area that State that has been mapped and designated an A area, (an area close to a river, lake or stream) by the Federal Emergency Management Agency, the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP.

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

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

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

B. Liabilities (continued)

5. Claims, Judgments and Contingent Liabilities

At June 30, 2012, 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 agreement calls for loan funding for up to \$1,145,000. As of June 30, 2012, the Town had drawn down \$774,232. Upon completion, the loan will require annual principal payments of \$57,250 each, plus 40 semi-annual payments of interest at an amount not to exceed 4% per annum.

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

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

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

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

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)
6. Long-Term Obligations (continued)

The future minimum payments of the installment purchase as of June 30, 2012, including \$343,803 of interest in the governmental activities and \$3,252,230 of interest in business-type activities are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 189,444	\$ 48,495	\$ 1,137,150	\$ 374,997
2014	159,610	42,866	1,140,315	349,672
2015	128,327	38,687	1,086,136	324,255
2016	129,077	34,987	1,029,525	301,269
2017	122,311	31,268	1,029,525	279,110
Subsequent five years	500,000	110,625	5,147,623	1,063,169
Subsequent five years	500,000	36,875	5,117,509	509,198
Subsequent five years	<u>-</u>	<u>-</u>	<u>2,465,659</u>	<u>50,560</u>
Present value of the minimum lease payments	<u>\$ 1,728,769</u>		<u>\$ 18,153,442</u>	
Total interest payments	<u>\$ 343,803</u>		<u>\$ 3,252,230</u>	

At June 30, 2012, the Town of Beaufort had a legal debt margin of \$43,238,374.

(b) Changes in Long-term Obligations

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
Compensated absences	\$ 186,257	\$ 13,298	\$ -	\$ 199,555	\$ 199,555
Installment loans	1,655,223	140,811	67,265	1,728,769	189,444
Other post-employment benefits	<u>19,439</u>	<u>8,506</u>	<u>-</u>	<u>27,945</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 1,860,919</u>	<u>\$ 162,615</u>	<u>\$ 67,265</u>	<u>\$ 1,956,269</u>	<u>\$ 388,999</u>
Business-type activities:					
Compensated absences	\$ 37,199	\$ -	\$ 3,384	\$ 33,815	\$ 33,815
Installment loans	18,767,015	468,605	1,082,178	18,153,442	1,137,150
Other post-employment benefits	<u>4,902</u>	<u>2,004</u>	<u>-</u>	<u>6,906</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 18,809,116</u>	<u>\$ 470,609</u>	<u>\$ 1,085,562</u>	<u>\$ 18,194,163</u>	<u>\$ 1,170,965</u>

Town of Beaufort, North Carolina
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2012

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities (continued)

7. Interfund Balances and Transfers

Transfers to/from other funds for the year ended June 30, 2012 were comprised of:

Transfer from General Fund to Fire District Fund for the Town's portion of Fire District expenditures	\$ <u>562,034</u>
Transfer from General Fund to Town Hall Project Fund for the Town's portion of building expenditures	\$ <u>116,310</u>
Transfer from General Fund to Water Fund for reimbursement of expenditures	\$ <u>62,222</u>

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	\$ 2,407,481
Less:	
Stabilization by State Statute	413,805
Streets – Powell Bill	<u>575,154</u>
Remaining Fund Balance	<u>\$ 1,418,522</u>

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.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

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

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

Town of Beaufort, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
For the Year Ended June 30, 2012

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%

Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2007	0	0%
2008	0	0%
2009	0	0%
2010	0	0%
2011	0	0%
2012	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, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues			
Ad valorem taxes:			
Current year	\$	\$ 1,970,041	\$
Prior years		64,489	
Penalties and interest		<u>14,595</u>	
Total	<u>2,313,522</u>	<u>2,049,125</u>	(264,397)
Other taxes & licenses:			
ABC net revenues		58,465	
Local option sales tax		683,457	
Privilege licenses		<u>38,505</u>	
Total	<u>725,000</u>	<u>780,427</u>	55,427
Unrestricted intergovernmental:			
Beer and wine tax		17,565	
Utilities franchise tax		<u>253,935</u>	
Total	<u>318,000</u>	<u>271,500</u>	(46,500)
Restricted intergovernmental:			
Powell Bill		117,548	
FEMA grant		163,735	
Other grants		<u>15,564</u>	
Total	<u>351,282</u>	<u>296,847</u>	(54,435)
Permits and fees:			
Building permits		79,352	
Court and parking fees		9,059	
Garbage/recycle fees		<u>296,303</u>	
Total	<u>410,000</u>	<u>384,714</u>	(25,286)
Sales and service:			
Rents		161,645	
Sales of cemetery lots		<u>4,600</u>	
Total	<u>136,000</u>	<u>166,245</u>	30,245

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, 2012

(continued)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Investment earnings:			
Interest	25,000	3,320	(21,680)
Other revenues:			
Administrative expense			
Reimbursement from Water/Sewer Funds		40,000	
Private donations		181,774	
Insurance proceeds		32,780	
Miscellaneous		9,905	
Total	<u>222,174</u>	<u>264,459</u>	<u>42,285</u>
Total revenues	<u>4,500,978</u>	<u>4,216,637</u>	(284,341)
Expenditures			
General government:			
Governing board:			
Governing board fees		16,643	
Professional fees		89,650	
Other expenditures		93,544	
Total	<u>269,294</u>	<u>199,837</u>	<u>69,457</u>
Administration:			
Salaries and benefits		214,881	
Operating expenditures		141,493	
Total	<u>413,414</u>	<u>356,374</u>	<u>57,040</u>
Finance:			
Salaries and benefits		237,047	
Operating expenditures		62,755	
Total	<u>305,270</u>	<u>299,802</u>	<u>5,468</u>
Facilities maintenance:			
Salaries and benefits		91,375	
Operating expenditures		112,609	
Capital outlay		3,682	
Total	<u>336,374</u>	<u>207,666</u>	<u>128,708</u>
Total general government	<u>1,324,352</u>	<u>1,063,679</u>	<u>260,673</u>
Public safety:			
Police:			
Salaries and benefits		987,307	
Operating expenditures		206,120	
Capital outlay		46,086	
Total	<u>1,303,725</u>	<u>1,239,513</u>	<u>64,212</u>

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

For the Year Ended June 30, 2012

(continued)

	Budget	Actual	(continued) Variance Favorable (Unfavorable)
Planning and inspections:			
Salaries and benefits		177,733	
Operating expenditures		42,633	
Total	228,700	220,366	8,334
Total public safety	1,532,425	1,459,879	72,546
Public works:			
Salaries and benefits		374,663	
Operating expenditures		426,155	
Street lights		108,992	
Street maintenance		78,465	
Capital outlay		118,103	
Total public works	1,244,221	1,106,378	137,843
Environmental protection:			
Sanitation:			
Salaries and benefits		220,040	
Garbage/trash collection		165,622	
Capital outlay		140,811	
Total environmental protection	523,806	526,473	(2,667)
Culture and recreation:			
Capital outlay	106,174	124,982	(18,808)
Debt service:			
Principal		6,612	
Interest		23,213	
Total debt service	70,000	29,825	40,175
Total expenditures	4,800,978	4,311,216	489,762
Revenues over (under) expenditures	(300,000)	(94,579)	205,421
Other financing sources (uses)			
Proceeds from installment purchase	141,000	140,811	(189)
Sale of fixed assets	30,000	33,031	3,031
Transfer to Fire Fund	(669,000)	(562,034)	106,966
Transfer to Water Fund	-	(62,222)	(62,222)
Transfer to Town Hall Project	-	(116,310)	(116,310)
Total other financing sources (uses)	(498,000)	(566,724)	(68,724)

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, 2012

	<u>Budget</u>	<u>Actual</u>	(continued) Variance Favorable (Unfavorable)
Fund balance appropriated	<u>798,000</u>	<u>-</u>	(<u>798,000</u>)
Net change in fund balance	<u>\$ -</u>	(<u>661,303</u>)	(<u>\$ 661,303</u>)
Fund balance, beginning		<u>3,068,784</u>	
Fund balance, ending		<u>\$ 2,407,481</u>	

FIRE DISTRICT FUND

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

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

Town of Beaufort, North Carolina
**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUND - FIRE DISTRICT**
 For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Ad valorem taxes	\$	\$ 326,123	\$
Sales tax		70,000	
Grants		11,227	
Interest		42	
Miscellaneous		<u>5,641</u>	
Total revenues	<u>414,252</u>	<u>413,033</u>	<u>(1,219)</u>
EXPENDITURES			
Salaries and benefits		766,658	
Operating expenditure		<u>143,384</u>	
Total	<u>1,018,226</u>	<u>910,042</u>	<u>108,184</u>
Debt service:			
Principal	60,652	60,652	-
Interest	<u>4,374</u>	<u>4,373</u>	<u>1</u>
Total	<u>65,026</u>	<u>65,025</u>	<u>1</u>
Total expenditures	<u>1,083,252</u>	<u>975,067</u>	<u>108,185</u>
Revenues over (under) expenditures	<u>(669,000)</u>	<u>(562,034)</u>	<u>106,966</u>
OTHER FINANCING SOURCES			
Transfer from General Fund	<u>669,000</u>	<u>562,034</u>	<u>(106,966)</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		<u>89,334</u>	
Fund balance, ending		<u>\$ 89,334</u>	

Town of Beaufort, North Carolina
CAPITAL PROJECTS FUND, HIGHWAY 70 UTILITY RELOCATION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2012

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
State grants	\$ 3,858,539	\$ 80,618	\$ 2,534,190	\$2,614,808	(\$1,243,731)
EXPENDITURES					
Engineering	367,000	109,250	272,386	381,636	(14,636)
Construction	<u>3,743,000</u>	<u>-</u>	<u>2,233,172</u>	<u>2,233,172</u>	<u>1,509,828</u>
Total expenditures	<u>4,110,000</u>	<u>109,250</u>	<u>2,505,558</u>	<u>2,614,808</u>	<u>1,495,192</u>
Revenues under expenditures	(251,461)	(28,632)	(28,632)	-	251,461
OTHER FINANCING SOURCES					
Transfer from Enterprise Fund	<u>251,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	(<u>251,461</u>)
Revenues and other financing over (under) expenditures	<u>\$ -</u>	<u>(\$ 28,632)</u>	<u>(28,632)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>28,632</u>		
Fund balance, ending			<u>\$ -</u>		

Town of Beaufort, North Carolina
CAPITAL PROJECTS FUND, TOWN HALL PROJECT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
From Inception and For the Year Ended June 30, 2012

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
EXPENDITURES					
Engineering	\$ 181,928	\$ 61,290	129,606	190,896	(\$ 8,968)
Construction	429,343	3,140	390,649	393,789	35,554
Property acquisition	<u>1,368,500</u>	<u>1,389,138</u>	<u>-</u>	<u>1,389,138</u>	<u>(20,638)</u>
Total expenditures	<u>1,979,771</u>	<u>1,453,568</u>	<u>520,255</u>	<u>1,973,823</u>	<u>5,948</u>
Revenues under expenditures	(1,979,771)	(1,453,568)	(520,255)	(1,973,823)	5,948
Other financing sources					
Loan proceeds	1,500,000	1,500,000	-	1,500,000	-
Transfer from General Fund	<u>479,771</u>	<u>357,513</u>	<u>116,310</u>	<u>473,823</u>	<u>(5,948)</u>
Total other financing	<u>1,979,771</u>	<u>1,857,513</u>	<u>116,310</u>	<u>1,973,823</u>	<u>(5,948)</u>
Revenues and other financing over (under) expenditures	<u>\$ -</u>	<u>\$ 403,945</u>	<u>(403,945)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>403,945</u>		
Fund balance, ending			<u>\$ -</u>		

ENTERPRISE FUNDS

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

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

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

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
WATER FUND
For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Operating revenues:			
Water service charges	\$	\$ 826,927	\$
Water tap fees		35,505	
Water connection fees		<u>24,874</u>	
Total	<u>874,000</u>	<u>887,306</u>	<u>13,306</u>
Non-operating revenues:			
Interest earned on investments		2,757	
Impact fees		7,600	
Other non-operating revenues		<u>86,463</u>	
Total	<u>55,000</u>	<u>96,820</u>	<u>41,820</u>
Total revenues	<u>929,000</u>	<u>984,126</u>	<u>55,126</u>
EXPENDITURES			
Operating expenses:			
Salaries and benefits		208,026	
Administrative expense		20,000	
Contract services		50,940	
Insurance		12,509	
Postage		13,635	
Professional fees		63,339	
Repairs and maintenance		27,446	
Supplies and materials		122,778	
Telephone and utilities		38,345	
Vehicle expenses		17,709	
County water purchase		45,085	
Other		<u>12,905</u>	
Total	<u>594,126</u>	<u>632,717</u>	(<u>38,591</u>)
Capital outlay:			
Equipment	<u>-</u>	<u>25,679</u>	(<u>25,679</u>)

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
WATER FUND
For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	(continued) Variance Favorable (Unfavorable)
Debt service:			
Principal	52,654	52,654	-
Interest	<u>9,568</u>	<u>20,626</u>	(11,058)
Total	<u>62,222</u>	<u>73,280</u>	(11,058)
 Total expenditures	 <u>656,348</u>	 <u>731,676</u>	 (75,328)
 Revenues over (under) expenditures	 <u>272,652</u>	 <u>252,450</u>	 (20,202)
 OTHER FINANCING SOURCES (USES)			
Transfer from General Fund	-	62,222	62,222
Transfer to capital project	(272,652)	(265,082)	<u>7,570</u>
Total other financing sources (uses)	<u>(272,652)</u>	<u>(202,860)</u>	<u>69,792</u>
 Revenues and other sources over (under) expenditures and other uses	 <u>\$ -</u>	 49,590	 <u>\$ 49,590</u>

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

Reconciling items:			
Decrease in accrued vacation		1,569	
Transfer to capital projects		265,082	
Capital outlay		25,679	
Increase in accrued OPEB liability		(498)	
Debt principal		52,654	
Depreciation		(96,819)	
Total reconciling items		<u>247,667</u>	
 Change in net assets		 <u>\$ 297,257</u>	

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
SEWER FUND
For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Operating revenues:			
Sewer service charges	\$	\$ 2,090,451	\$
Sewer tap fees		<u>18,000</u>	
Total	<u>2,355,000</u>	<u>2,108,451</u>	(246,549)
Non-operating revenues:			
Interest earned on investments		1,993	
Impact fees		5,850	
Other non-operating revenues		<u>14,253</u>	
Total	<u>88,750</u>	<u>22,096</u>	(66,654)
Total revenues	<u>2,443,750</u>	<u>2,130,547</u>	(313,203)
EXPENDITURES			
Operating expenses:			
Salaries and benefits		469,432	
Administrative expense		20,000	
Contract services		86,697	
Insurance		76,412	
Professional fees		12,370	
Repairs and maintenance		65,633	
Supplies and materials		41,942	
Telephone and utilities		177,088	
Vehicle expense		23,826	
Other		<u>28,342</u>	
Total	<u>950,423</u>	<u>1,001,742</u>	(51,319)
Capital outlay:			
Equipment	<u>-</u>	<u>17,894</u>	(17,894)

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
SEWER FUND
For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	(continued) Variance Favorable (Unfavorable)
Debt Service:			
Principal payments	1,121,158	1,029,525	91,633
Interest	<u>432,169</u>	<u>349,706</u>	<u>82,463</u>
Total	<u>1,553,327</u>	<u>1,379,231</u>	<u>174,096</u>
 Total expenditures	 <u>2,503,750</u>	 <u>2,398,867</u>	 <u>104,883</u>
 Revenues over (under) expenditures	 (<u>60,000</u>)	 (<u>268,320</u>)	 (<u>208,320</u>)
 OTHER FINANCING SOURCES (USES)			
Insurance reimbursement	<u>-</u>	<u>9,454</u>	<u>9,454</u>
 Fund balance appropriated	 <u>60,000</u>	 <u>-</u>	 (<u>60,000</u>)
 Revenues and other sources over (under) expenditures and other uses	 <u>\$ -</u>	 (<u>258,866</u>)	 (<u>\$ 258,866</u>)
 Reconciliation of modified accrual basis to full accrual basis:			
Revenues and other financing			
Reconciling items:			
Decrease in accrued vacation pay		1,815	
Debt principal		1,029,525	
Capital outlay		17,894	
Capital contribution		709,524	
Increase in accrued OPEB liability		(1,506)	
Depreciation		(<u>810,968</u>)	
Total reconciling items		<u>946,284</u>	
 Change in net assets		 <u>\$ 687,418</u>	

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
WATER SUPPLY PROJECT
From Inception and for the Year Ended June 30, 2012

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Transfer from Water Fund	\$ 1,685,000	\$ 867,273	\$ 265,082	\$ 1,132,355	(\$ 552,645)
Total revenues	<u>1,685,000</u>	<u>867,273</u>	<u>265,082</u>	<u>1,132,355</u>	<u>(552,645)</u>
EXPENDITURES					
Administration	650,000	117,481	-	117,481	532,519
Engineering	535,000	578,385	-	578,385	(43,385)
Construction	<u>500,000</u>	<u>436,489</u>	<u>-</u>	<u>436,489</u>	<u>63,511</u>
Total expenditures	<u>1,685,000</u>	<u>1,132,355</u>	<u>-</u>	<u>1,132,355</u>	<u>552,645</u>
Total revenues over (under) expenditures	<u>\$ -</u>	<u>(\$ 265,082)</u>	<u>\$ 265,082</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Beaufort, North Carolina
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - (Non-GAAP)
CAPITAL PROJECT FUND
WELL 2 PROJECT
From Inception and for the Year Ended June 30, 2012

	<u>Project Authorization</u>	<u>Prior Year</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
REVENUES					
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 1,145,000	\$ 305,627	\$ 468,605	\$ 774,232	(\$ 370,768)
Total revenues	<u>1,145,000</u>	<u>305,627</u>	<u>468,605</u>	<u>774,232</u>	<u>(370,768)</u>
EXPENDITURES					
Administration	37,900	41	-	41	37,859
Engineering	454,889	429,668	103,891	533,559	(78,670)
Construction	<u>652,211</u>	<u>-</u>	<u>274,308</u>	<u>274,308</u>	<u>377,903</u>
Total expenditures	<u>1,145,000</u>	<u>429,709</u>	<u>378,199</u>	<u>807,908</u>	<u>337,092</u>
Total revenues over (under) expenditures	<u>\$ -</u>	<u>(\$ 124,082)</u>	<u>\$ 90,406</u>	<u>(\$ 33,676)</u>	<u>(\$ 33,676)</u>

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, 2012

	Project Authorization	Actual		Variance Positive (Negative)
		Current Year	Total to Date	
REVENUES				
Proceeds from NC Dept. of Environment & Natural Resources Loan	\$ 935,000	\$ -	\$ -	(\$ 935,000)
Total revenues	<u>935,000</u>	<u>-</u>	<u>-</u>	<u>(935,000)</u>
EXPENDITURES				
Administration	23,000	10,076	10,076	12,924
Engineering	202,700	62,860	62,860	139,840
Construction	<u>794,300</u>	<u>-</u>	<u>-</u>	<u>794,300</u>
Total expenditures	<u>1,020,000</u>	<u>72,936</u>	<u>72,936</u>	<u>947,064</u>
Total revenues over (under) expenditures	<u>(85,000)</u>	<u>(72,936)</u>	<u>(72,936)</u>	<u>12,064</u>
OTHER FINANCING SOURCES				
T ransfer from Water Fund	<u>85,000</u>	<u>-</u>	<u>-</u>	<u>(85,000)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>(\$ 72,936)</u>	<u>(\$ 72,936)</u>	<u>(\$ 72,936)</u>

OTHER SCHEDULES

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy – Town-wide

Town of Beaufort, North Carolina
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
GENERAL FUND
June 30, 2012

Fiscal Year	Uncollected Balance June 30, 2011	Additions	Collections and Credits	Uncollected Balance June 30, 2012
2011-2012	\$ -	\$ 2,052,316	\$ 1,973,892	\$ 78,424
2010-2011	96,208	-	52,896	43,312
2009-2010	34,041	-	16,841	17,200
2008-2009	16,133	-	7,265	8,868
2007-2008	1,524	187	269	1,442
2006-2007	3,306	2,596	258	5,644
2005-2006	2,970	1,685	2,604	2,051
2004-2005	536	2,316	-	2,852
2003-2004	624	370	-	994
2002-2003	3,985	-	-	3,985
	<u>\$ 159,327</u>	<u>\$ 2,059,470</u>	<u>\$ 2,054,025</u>	<u>164,772</u>
				Less: allowance for uncollectible accounts (21,439)
				Ad valorem taxes receivable – net <u>\$ 143,333</u>
				Reconciliation with revenues:
				Ad valorem taxes – General Fund \$ 2,049,125
				Reconciling items:
				Taxes written off 19,495
				Penalties and interest (14,595)
				Net collections and credits <u>\$ 2,054,025</u>

Town of Beaufort, North Carolina
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Year Ended June 30, 2012

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current Penalty	\$ 798,691,154	.26	\$ 2,076,597 897	\$ 2,008,160 897	\$ 68,437 -
Discoveries					
Current year taxes	1,183,846		3,078	3,078	-
Abatements	(10,867,692)		(28,256)	(27,187)	(1,069)
Total property valuation	<u>\$ 789,007,308</u>				
Net levy			2,052,316	1,984,948	67,368
Uncollected taxes at June 30, 2012			<u>78,424</u>	<u>67,647</u>	<u>10,777</u>
Current year's taxes collected			<u>\$ 1,973,892</u>	<u>\$ 1,917,301</u>	<u>\$ 56,591</u>
Current levy collection percentage			<u>96.18%</u>	<u>96.59%</u>	<u>84.00%</u>

COMPLIANCE SECTION

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

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

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

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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina as of and for the year ended June 30, 2012, which collectively comprise the Town of Beaufort, North Carolina's basic financial statements, and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2012-1, 2012-2, and 2012-3]

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. [2012-4 and 2012-5]

Compliance and Other Matters

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

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

We noted certain matters that we reported to management of the Town of Beaufort in a separate letter dated November 15, 2012.

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

Pittard Perry & Crone, Inc.

New Bern, North Carolina
November 15, 2012

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

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

Compliance

We have audited the Town of Beaufort, North Carolina, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Beaufort, North Carolina's major federal programs for the year ended June 30, 2012. Town of Beaufort's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Town of Beaufort's management. Our responsibility is to express an opinion on the Town of Beaufort's compliance based on our audit.

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

In our opinion, Town of Beaufort complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

Pittard Perry & Crane, Inc.

New Bern, North Carolina
November 15, 2012

Town of Beaufort, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2012

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Direct and Pass-through Expenditures	State Expenditures
Federal Grants (Cash Program)			
<u>Department of Commerce:</u>			
<u>Environmental Protection Agency</u>			
<u>Office of Water:</u>			
Passed through NC Department of Environment and Natural Resources:			
Drinking Water State Revolving Loan	66.458	\$ 451,135	\$ -
 <u>Department of Homeland Security:</u>			
Passed through NC Department of Crime Control and Public Safety:			
Public Assistance Grant Program For Infrastructure Support (FEMA)	97.039	133,132	44,377
 State Grants (Cash Programs)			
 <u>NC Department of Transportation:</u>			
Powell bill		-	77,103
		<u>\$ 584,267</u>	<u>\$ 121,480</u>

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

1. The accompanying schedule of expenditures of Federal and State awards includes the Federal and State grant activity of the Town of Beaufort and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profits Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
2. Loans Outstanding
The Town of Beaufort had the following loan balances outstanding at June 30, 2012. 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	\$ 17,848,413

Town of Beaufort, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

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

Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major federal programs:

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

Identification of major federal programs:

<u>CFDA Number</u>	<u>Program Name</u>
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 no

State Awards

None

Town of Beaufort, North Carolina
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section II. Financial Statement Findings

Material Weakness

2012-1 Timely financial reporting

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

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

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

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

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

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

2012-2 Unbudgeted transfer

Criteria: The Town must properly budget all transfers made between funds prior to moving funds.

Condition: During the course of the audit, it was noted the General Fund made a transfer to the Water Fund that was not budgeted.

Effect: Management transferred funds that had not been legally appropriated.

Cause: The Town transferred funds from the General Fund to the Water Fund without proper budget authorization.

Recommendation: Town management should ensure all transfers are properly budgeted and authorized prior to the transfer of funds.

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

2012-3 Improper property tax budget calculation

Criteria: The Town must properly budget the expected property tax revenues based upon current valuation base, effective tax rates and historical collectability percentages.

Condition: During the course of the audit, it was noted the Town used an incorrect property valuation base in calculating its budgeted property tax revenues.

Effect: Town management authorized expenditures based upon incorrectly budgeted revenues.

Cause: The Town used an incorrect valuation base in its calculation of property tax revenues during the budget process.

Recommendation: Town management should review all calculations during the budget process to ensure all revenues and expenditures are properly stated.

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

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

Section II. Financial Statement Findings

Significant Deficiency

2012-4 Excess of expenditures over appropriation

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

Condition: During the course of our audit, we noted expenditures made in the General Fund exceeded authorized appropriations made by the governing board for environmental protection by 2,667 and culture and recreation by \$18,808. In addition, expenditures made in the Town's Water Fund exceeded authorized appropriations made by the governing board by \$75,328.

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

Cause: Proper budget management procedures were not followed.

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

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

2012-5 Form LGC-203 not filed timely

Criteria: Form LGC-203 should be filed semi-annually by January 25th and July 25th.

Condition: In performing field work, we noted the refund report for the December 31, 2011 period was not filed timely.

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

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

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

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

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, 2012

Section II. Financial Statement Findings

Material Weakness

2012-1 Timely financial reporting

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

Corrective Action: The Town has hired additional personnel late in the year and has made significant improvement in its financial reporting abilities. We expect this deficiency to be completely resolved soon.

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

2012-2 Unbudgeted transfer

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

Corrective Action: The Town will ensure all transfers henceforth are properly budgeted prior to transfer of funds.

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

2012-3 Improper property tax budget calculation

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

Corrective Action: The Town will ensure all budget calculations are properly reviewed and verified prior to adoption in the budget ordinance.

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

Significant Deficiency

2012-4 Excess of expenditures over appropriation

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

2012-5 Form LGC-203 not filed timely

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

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

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

Town of Beaufort, North Carolina
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012

2011-1 Segregation of duties

Status: Corrected

2011-2 Timely financial reporting

Status: The Town has had significant improvement in this area with the hiring of additional staff, but is still an issue at year end. See finding 2012-1.

2011-3 Capital project ordinance not adopted timely.

Status: Corrected

2011-4 Excess of expenditures over appropriation

Status: This continues to be an ongoing issue for the Town. See 2012-4.

2011-5 Sales tax refund report not filed timely.

Status: Corrected

2011-6 Procurement policy

Status: Corrected

2011-7 Actuarial study not performed

Status: Corrected

2011-8 Improper credit card reconciliation

Status: Corrected

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort as of and for the year ended June 30, 2012, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements.

During our audit, we noted the following immaterial discrepancies:

The Town calculated its budgeted property tax revenues for the 2012-2013 fiscal year based on a 99% collection rate. Historically, the Town's collection rate is not this high. The Town may need to review its calculations to ensure compliance with General Statutes.

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

Pittard Perry & Crone, Inc.

New Bern, North Carolina
November 15, 2012