

**TOWN OF BEAUFORT
NORTH CAROLINA**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

TOWN OF BEAUFORT, NORTH CAROLINA

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2020

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Local Governmental Employees' Retirement System Schedules of the Town's Proportionate Share of Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Beaufort, North Carolina's, basic financial statements. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021 on our consideration of the Town of Beaufort's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Town of Beaufort's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Beaufort's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 22, 2021

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Management's Discussion and Analysis

As management of the Town of Beaufort, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

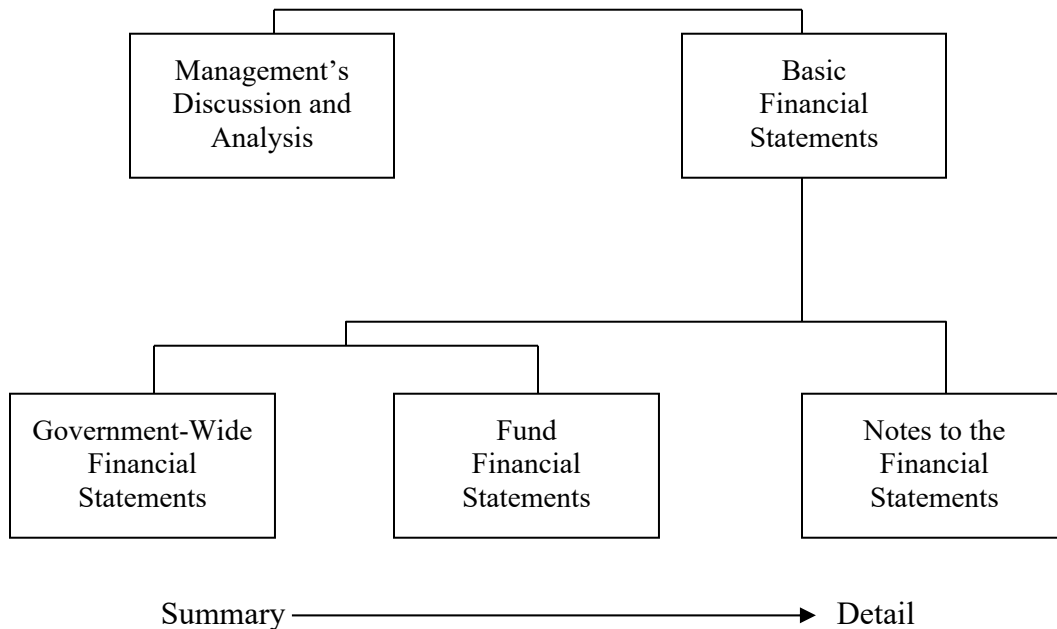
- The assets and deferred outflows of resources of the Town of Beaufort exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$36,824,281 (net position). This amount was comprised of net position in the governmental funds of \$15,757,868 and \$21,066,413 in business-type funds.
- The government's total net position increased by \$1,656,140, which consisted of an increase in governmental funds of \$954,148 and an increase in business-type funds of \$701,992.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$13,434,357 with a net increase of \$3,412,785 in fund balance. Approximately 43.1% of this total amount, or \$5,792,781, is non-spendable or restricted.
- The Town's total debt increased by \$2,096,622 during the current fiscal year. The Town assumed \$4,701,596 in new installment purchase agreements and reduced existing principal balances by \$1,380,238 in the governmental activities. Long-term debt for business-type activities decreased by \$1,224,736 due to timely payments.

Overview of the Financial Statements

This discussion and analysis is 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 A and B) 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 C through I) 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 to the financial statements**. The notes explain in detail some of the data contained in those statements. Following the notes is the **required supplementary information**. This section contains funding information about the Town's pension plans.

After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

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

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

The government-wide statements are divided into two categories; 1) governmental activities and 2) 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 and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Beaufort.

The government-wide financial statements are Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) 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, 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 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*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Beaufort adopts an annual budget for its General Fund and Utility Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board of Commissioners about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted.

The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found after Exhibit I of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Beaufort's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 54 of this report.

Interdependence with Other Entities. The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Beaufort exceeded liabilities and deferred inflows by \$36,824,281 as of June 30, 2020. The Town's net position increased by \$1,656,140 for the fiscal year ended June 30, 2020.

However, the largest portion (69%) or \$25,429,413, reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Beaufort uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Beaufort's net position, at June 30, 2020, \$2,143,771, or 6%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,251,097 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 97.61%.
- Increased property tax revenue due to a tax rate increase.

Town of Beaufort's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets:						
Current and other assets	\$ 14,370,681	\$ 10,696,313	\$ 3,171,026	\$ 2,351,941	\$ 17,541,707	\$ 13,048,254
Capital assets	11,087,768	9,696,990	28,546,331	29,850,513	39,634,099	39,547,503
Total assets	<u>25,458,449</u>	<u>20,393,303</u>	<u>31,717,357</u>	<u>32,202,454</u>	<u>57,175,806</u>	<u>52,595,757</u>
Deferred Outflows of Resources	<u>927,561</u>	<u>971,798</u>	<u>176,265</u>	<u>182,620</u>	<u>1,103,826</u>	<u>1,154,418</u>
Liabilities:						
Long-term liabilities	8,804,784	4,614,163	9,320,295	10,400,312	18,125,079	15,014,475
Other liabilities	1,548,759	1,884,406	1,499,623	1,608,918	3,048,382	3,493,324
Total liabilities	<u>10,353,543</u>	<u>6,498,569</u>	<u>10,819,918</u>	<u>12,009,230</u>	<u>21,173,461</u>	<u>18,507,799</u>
Deferred Inflows of Resources	<u>274,599</u>	<u>62,812</u>	<u>7,291</u>	<u>11,423</u>	<u>281,890</u>	<u>74,235</u>
Net Position:						
Net investment						
in capital assets	7,035,639	5,297,043	18,393,774	18,473,220	25,429,413	23,770,263
Restricted	1,979,173	2,985,309	164,598	94,698	2,143,771	3,080,007
Unrestricted	<u>6,743,056</u>	<u>6,521,368</u>	<u>2,508,041</u>	<u>1,796,503</u>	<u>9,251,097</u>	<u>8,317,871</u>
Total net position	<u>\$ 15,757,868</u>	<u>\$ 14,803,720</u>	<u>\$ 21,066,413</u>	<u>\$ 20,364,421</u>	<u>\$ 36,824,281</u>	<u>\$ 35,168,141</u>

Town of Beaufort's Changes in Net Position

Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 1,410,686	\$ 1,430,447	\$ 4,437,735	\$ 4,423,299	\$ 5,848,421	\$ 5,853,746
Operating grants and contributions	847,214	1,025,486	233,514	65,210	1,080,728	1,090,696
Capital grants and contributions	4,113	102,640	-	1,133,667	4,113	1,236,307
General revenues:						
Property taxes	4,037,468	3,422,410	-	-	4,037,468	3,422,410
Other taxes	2,761,139	2,507,762	-	-	2,761,139	2,507,762
Other	83,944	79,591	89,956	172,802	173,900	252,393
Total revenues	<u>9,144,564</u>	<u>8,568,336</u>	<u>4,761,205</u>	<u>5,794,978</u>	<u>13,905,769</u>	<u>14,363,314</u>
Expenses:						
General government	1,314,094	1,245,130	-	-	1,314,094	1,245,130
Public safety	4,329,858	3,553,887	-	-	4,329,858	3,553,887
Transportation	1,672,749	1,163,508	-	-	1,672,749	1,163,508
Environmental protection	557,039	675,625	-	-	557,039	675,625
Economic development	112,730	-	-	-	112,730	-
Culture and recreation	316,160	258,963	-	-	316,160	258,963
Interest on long-term debt	122,852	107,813	-	-	122,852	107,813
Utility Fund	-	-	3,824,147	3,517,932	3,824,147	3,517,932
Total expenses	<u>8,425,482</u>	<u>7,004,926</u>	<u>3,824,147</u>	<u>3,517,932</u>	<u>12,249,629</u>	<u>10,522,858</u>
Increase (decrease) in net position before transfers	719,082	1,563,410	937,058	2,277,046	1,656,140	3,840,456
Transfers	<u>235,066</u>	<u>2,874,516</u>	<u>(235,066)</u>	<u>(2,874,516)</u>	<u>-</u>	<u>-</u>
Change in net position	954,148	4,437,926	701,992	(597,470)	1,656,140	3,840,456
Net Position:						
Beginning of year, July 1	<u>14,803,720</u>	<u>10,365,794</u>	<u>20,364,421</u>	<u>20,961,891</u>	<u>35,168,141</u>	<u>31,327,685</u>
End of year, June 30	<u>\$ 15,757,868</u>	<u>\$ 14,803,720</u>	<u>\$ 21,066,413</u>	<u>\$ 20,364,421</u>	<u>\$ 36,824,281</u>	<u>\$ 35,168,141</u>

Governmental Activities. Governmental activities resulted in an increase of the Town's net position by \$954,148. Key elements of this increase are as follows:

- Tax rate increase from prior year increased property tax revenues.

Business-Type Activities. Business-type activities increased the Town's net position by \$701,992. Key elements of this increase are as follows:

- Increase in sales and service due to new development.

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 expendable resources. Such information is useful in assessing the Town of Beaufort's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Beaufort. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$3,301,063, while total fund balance reached \$4,390,029 of which \$3,280,623 was unassigned and available for use by the Board of Commissioners. The Town currently has an available fund balance of 31.0% of total General Fund expenditures and transfers out, while unassigned fund balance represents 30.8% of that same amount.

The Town established a Capital Reserve Fund during fiscal year 2019 to accumulate funds for future capital projects. Several capital projects funds were established during fiscal year 2020 and funded by the Capital Reserve Fund.

The Street Rehabilitation and Pedestrian Improvements Fund was created during fiscal year 2020 to account for activity for street rehabilitation. The funding for this project comes from installment proceeds received during the fiscal year. No construction or improvements have started as of June 30, 2020.

At June 30, 2020, the governmental funds of the Town of Beaufort reported a combined fund balance of \$13,434,357, with a net increase in fund balance of \$3,412,785. Included in this change in fund balance is a decrease in the General Fund of (\$420,082), an increase in the Capital Reserve Fund of \$677,065, an increase in the Street Rehabilitation and Pedestrian Improvements Fund of \$3,669,176, and a decrease in the nonmajor governmental funds of (\$513,374).

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on a few occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased expenditures by \$3,196,507. The budgetary increase was primarily attributable to debt service payment retirement for NCORR loan as a result of FEMA grant proceeds being received, as well as for increase in expenditures due to the COVID-19 pandemic.

Proprietary Funds. The Town of Beaufort's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Utility Fund at the end of the fiscal year amounted to \$2,508,041. The total change in net position was an increase of \$701,992. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Beaufort's business-type activities.

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, 2020 totals \$39,634,099 (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.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 2,071,212	\$ 2,071,212	\$ 444,059	\$ 1,073,691	\$ 2,515,271	\$ 3,144,903
Construction in progress	1,095,116	439,797	98,489	-	1,193,605	439,797
Infrastructure	1,374,151	1,430,080	-	-	1,374,151	1,430,080
Equipment and fixtures	367,042	434,441	383,094	389,773	750,136	824,214
Vehicles	1,776,349	777,454	244,101	114,600	2,020,450	892,054
Building and improvements	4,403,898	4,544,006	321,984	342,373	4,725,882	4,886,379
Plant and distribution systems	-	-	27,054,604	27,930,076	27,054,604	27,930,076
Total	<u>\$ 11,087,768</u>	<u>\$ 9,696,990</u>	<u>\$ 28,546,331</u>	<u>\$ 29,850,513</u>	<u>\$ 39,634,099</u>	<u>\$ 39,547,503</u>

Additional information on the Town's capital assets can be found in notes 1 and 2 of the basic financial statements.

Long-Term Debt. Following is a summary of outstanding long-term obligations as of June 30, 2020. Installment purchases are debt backed by the full faith and credit of the Town and secured by the underlying assets. More information about long-term debt is presented in notes 1 and 2.

Town of Beaufort's Long-Term Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Installment purchases - direct placement	\$ 7,721,305	\$ 3,424,856	\$ 19,540	\$ 117,440	\$ 7,740,845	\$ 3,542,296
Installment purchases - direct borrowing	-	975,091	10,133,017	11,259,853	10,133,017	12,234,944
Total	<u>\$ 7,721,305</u>	<u>\$ 4,399,947</u>	<u>\$ 10,152,557</u>	<u>\$ 11,377,293</u>	<u>\$ 17,873,862</u>	<u>\$ 15,777,240</u>

Town of Beaufort's Outstanding Debt

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up 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 approximately \$62,490,186.

Economic Factors and Next Year's Budgets and Rates

Moving forward into FY 2021, the Town's General Fund budget increases 6.7% from \$9 million to \$9.6 million. A property tax collection rate of 97.41% was utilized in accordance with the General Statutes. The property tax rate remains at \$0.4600 for FY 2021. No fund balance appropriation was made to balance the budget. An appropriation of \$336,572 was made for the vehicle replacement program. An additional \$82,500 was appropriated to complete funding for a Unified Development Ordinance in FY 2021. For FY 2021, the General Fund budget also includes a \$600,000 contribution from the Utility Fund. This covers administrative costs borne by the General Fund.

The General Fund unassigned fund balance is \$2,818,073, the equivalent of 29.36% of the total General Fund expenditures. This exceeds the Board's financial policy of a minimum requirement of 20%.

The budget for the Utility Fund increases 5.7% from \$4.4 million to \$4.6 million.

Budget Highlights for Fiscal Year 2020 - 2021

FY 2021 budget includes:

- Funding to develop a Beaufort Harbor Master Plan to address
 - an aging boardwalk and deteriorating bulkhead
 - interest in establishing a mooring field for transient vessels across from the Beaufort docks
 - the 2024 expiration of the Beaufort docks lease of the waterfront from the Town
 - marine debris, abandoned and derelict vessels, and environmental quality
- Cedar Street Park – An updated concept plan for the park was completed in FY 2020. Construction documents will be prepared in early FY 2021, and after the property is secured from NCDOT, construction will follow.
- Cedar Street Utility Line Improvements – In FY 2020, NCDOT planned to replace stormwater lines under Cedar Street. In FY 2021, they planned to install stormwater devices in planted bump-outs to filter out impurities and provide for limited stormwater retention and then resurface the entire street. NCDOT budget shortfalls have delayed this project and it is not now known when it will begin.
- Street and Pedestrian Improvements - This project provides for the resurfacing of those town streets in need of repair for which the underlying utilities are in good condition, and for the paving of two unpaved streets on town rights-of-way, totaling 3.2 centerline miles.

This project also includes a number of pedestrian improvements to promote safety and accessibility, including 3.4 miles of new sidewalk construction to enhance safe, pedestrian access to Randolph Johnson Park, the Carteret County library, and to many of the residences and businesses located along Live Oak Street. It also includes expanding the sidewalk on the west side of the 100 block of Turner Street, enhancing safety and aesthetics.

Construction will begin in late FY 2020, to be completed by the end of FY 2021. This project is being financed and debt service payments begin in FY 2021.

- Stormwater Improvements Program – In FY 2020, Town staff began the effort to evaluate and prioritize the specific projects from the Stormwater Management Plan, develop an ongoing maintenance program and budget, and prepare a modified stormwater fee schedule necessary to provide adequate funding. This effort will be completed in FY 2021 and recommendations will be presented to the Board of Commissioners.

- Utility Line & Street Combined Improvement Program – The FY 2020 Five-Year Financial Plan and Capital Improvements Plan included the replacement/rehabilitation of utilities and resurfacing of affected streets in three-block segments on an annual, pay-as-you-go basis beginning in FY 2021. This was recognized as being inadequate, given the breadth of the needs. During FY 2020, a plan was devised to address these utility needs through a combination of USDA Rural Development grants and loans, using existing earmarked funds to service the associated debt.

Assuming grants in the maximum available amount are awarded, this project totals just over \$26 million, including associated stormwater and street improvements. Design work will be completed in FY 2021 and construction will begin in FY 2022. A portion of the annual debt service requirements are anticipated to begin in FY 2022, with the full amount realized in FY 2023, all paid with previously earmarked funds.

Requests for Information

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

TOWN OF BEAUFORT, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 8,147,303	\$ 1,773,669	\$ 9,920,972
Intergovernmental receivable	883,132	-	883,132
Property taxes receivable, net	185,987	-	185,987
Accounts receivable, net	61,402	1,023,146	1,084,548
Prepaid items	144,432	-	144,432
Restricted assets:			
Restricted cash and cash equivalents	4,948,425	374,211	5,322,636
Total current assets	14,370,681	3,171,026	17,541,707
Non-current assets:			
Capital assets:			
Capital assets, non-depreciable	3,166,328	542,548	3,708,876
Capital assets, net of depreciation	7,921,440	28,003,783	35,925,223
Total non-current assets	11,087,768	28,546,331	39,634,099
Total assets	25,458,449	31,717,357	57,175,806
Deferred Outflows of Resources:			
Pension deferrals	589,813	106,790	696,603
Contributions to pension plan in current fiscal year	337,748	69,475	407,223
Total deferred outflows of resources	927,561	176,265	1,103,826
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	610,587	102,003	712,590
Liabilities to be paid from restricted assets	-	209,613	209,613
Advance from grantor	37,270	-	37,270
Long-term debt due within one year	900,902	1,188,007	2,088,909
Total current liabilities	1,548,759	1,499,623	3,048,382
Long-term liabilities:			
Long-term debt due in more than one year	7,050,893	9,016,041	16,066,934
Net pension liability	1,316,548	304,254	1,620,802
Total pension liability	437,343	-	437,343
Total long-term liabilities	8,804,784	9,320,295	18,125,079
Total liabilities	10,353,543	10,819,918	21,173,461
Deferred Inflows of Resources:			
Pension deferrals	102,792	7,291	110,083
Prepaid rent	171,807	-	171,807
Total deferred inflows of resources	274,599	7,291	281,890
Net Position:			
Net investment in capital assets	7,035,639	18,393,774	25,429,413
Restricted for stabilization by state statute	944,534	-	944,534
Restricted for streets	20,440	-	20,440
Restricted for cultural and recreation	1,014,191	-	1,014,191
Restricted for economic development	8	-	8
Restricted for systems development fees	-	164,598	164,598
Unrestricted	6,743,056	2,508,041	9,251,097
Total net position	\$ 15,757,868	\$ 21,066,413	\$ 36,824,281

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, 2020**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs :				
Primary Government:				
Governmental Activities:				
General government	\$ 1,314,094	\$ 396,405	\$ 15,000	\$ -
Public safety	4,329,858	280,330	156,741	-
Public works	1,672,749	-	-	-
Environmental protection	557,039	726,754	504,438	-
Economic development	112,730	-	112,730	-
Cultural and recreation	316,160	7,197	58,305	4,113
Interest on long-term debt	122,852	-	-	-
Total governmental activities	<u>8,425,482</u>	<u>1,410,686</u>	<u>847,214</u>	<u>4,113</u>
Business-Type Activities:				
Utility Fund	<u>3,824,147</u>	<u>4,437,735</u>	<u>233,514</u>	<u>-</u>
Total primary government	<u>\$ 12,249,629</u>	<u>\$ 5,848,421</u>	<u>\$ 1,080,728</u>	<u>\$ 4,113</u>

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

TOWN OF BEAUFORT, NORTH CAROLINA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs :			
Primary Government:			
Governmental Activities:			
General government	\$ (902,689)	\$ -	\$ (902,689)
Public safety	(3,892,787)	-	(3,892,787)
Public works	(1,672,749)	-	(1,672,749)
Environmental protection	674,153	-	674,153
Economic development	-	-	-
Cultural and recreation	(246,545)	-	(246,545)
Interest on long-term debt	(122,852)	-	(122,852)
Total governmental activities	<u>(6,163,469)</u>	<u>-</u>	<u>(6,163,469)</u>
Business-Type Activities:			
Utility Fund	<u>-</u>	<u>847,102</u>	<u>847,102</u>
Total primary government	<u>(6,163,469)</u>	<u>847,102</u>	<u>(5,316,367)</u>
General Revenues:			
Property tax	4,037,468	-	4,037,468
Other taxes	2,761,139	-	2,761,139
Investment earnings	83,944	23,756	107,700
Miscellaneous	<u>-</u>	<u>66,200</u>	<u>66,200</u>
Total general revenues, excluding transfers	6,882,551	89,956	6,972,507
Transfers	<u>235,066</u>	<u>(235,066)</u>	<u>-</u>
Total general revenues and transfers	<u>7,117,617</u>	<u>(145,110)</u>	<u>6,972,507</u>
Change in net position	954,148	701,992	1,656,140
Net Position:			
Beginning of year, July 1	<u>14,803,720</u>	<u>20,364,421</u>	<u>35,168,141</u>
End of year, June 30	<u>\$ 15,757,868</u>	<u>\$ 21,066,413</u>	<u>\$ 36,824,281</u>

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

TOWN OF BEAUFORT, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020

	Major Funds				
	General Fund	Capital Reserve Fund	Street Rehabilitation and Pedestrian Improvements Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 3,773,562	\$ 4,315,683	\$ -	\$ 58,058	\$ 8,147,303
Property taxes receivable	185,987	-	-	-	185,987
Intergovernmental receivable	883,132	-	-	-	883,132
Accounts receivable	61,402	-	-	-	61,402
Prepaid items	144,432	-	-	-	144,432
Restricted cash and cash equivalents	20,440	-	3,669,176	1,258,809	4,948,425
Total assets	<u>\$ 5,068,955</u>	<u>\$ 4,315,683</u>	<u>\$ 3,669,176</u>	<u>\$ 1,316,867</u>	<u>\$ 14,370,681</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 321,132	\$ -	\$ -	\$ 220,128	\$ 541,260
Advance from grantor	-	-	-	37,270	37,270
Total liabilities	<u>321,132</u>	<u>-</u>	<u>-</u>	<u>257,398</u>	<u>578,530</u>
Deferred Inflows of Resources:					
Property taxes receivable	185,987	-	-	-	185,987
Prepaid rent	<u>171,807</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,807</u>
Total deferred inflows of resources	<u>357,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>357,794</u>
Fund Balances:					
Non-spendable:					
Prepaid items	144,432	-	-	-	144,432
Restricted:					
Stabilization by state statute	944,534	-	-	-	944,534
Streets - Powell Bill	20,440	-	-	-	20,440
Cultural and recreation	-	-	-	1,014,191	1,014,191
Economic development	-	-	-	8	8
Public works	-	-	3,669,176	-	3,669,176
Committed:					
Environmental protection	-	-	-	45,270	45,270
Public works	-	4,315,683	-	-	4,315,683
Unassigned	<u>3,280,623</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,280,623</u>
Total fund balances	<u>4,390,029</u>	<u>4,315,683</u>	<u>3,669,176</u>	<u>1,059,469</u>	<u>13,434,357</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,068,955</u>	<u>\$ 4,315,683</u>	<u>\$ 3,669,176</u>	<u>\$ 1,316,867</u>	

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	11,087,768
Net pension liability	(1,316,548)
Total pension liability	(437,343)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	337,748
Pension related deferrals - outflows	589,813
Long-term liabilities, accrued interest, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(8,021,122)
Pension related deferrals - inflows	(102,792)
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be received within 90 days of year-end. These receivables are a component of net position in the Statement of Net Position.	185,987
Net position of governmental activities per Exhibit A	<u>\$ 15,757,868</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, 2020

	Major Funds				
	General Fund	Capital Reserve Fund	Street Rehabilitation and Pedestrian Improvements Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Ad valorem taxes	\$ 4,035,156	\$ -	\$ -	\$ -	\$ 4,035,156
Other taxes and licenses	2,338,652	-	-	-	2,338,652
Unrestricted intergovernmental	422,487	-	-	-	422,487
Restricted intergovernmental	907,825	-	-	112,730	1,020,555
Permits and fees	997,505	-	-	-	997,505
Sales and services	290,292	-	-	-	290,292
Investment earnings	83,936	-	-	8	83,944
Miscellaneous	137,889	-	-	4,113	142,002
Total revenues	<u>9,213,742</u>	<u>-</u>	<u>-</u>	<u>116,851</u>	<u>9,330,593</u>
Expenditures:					
Current:					
General government	983,001	-	-	-	983,001
Public safety	4,975,535	-	-	-	4,975,535
Public works	1,552,623	-	5,824	-	1,558,447
Environmental protection	557,039	-	-	86,730	643,769
Cultural and recreation	287,363	-	-	562,765	850,128
Economic development	-	-	-	112,730	112,730
Non-departmental	244,619	-	-	-	244,619
Debt service:					
Principal	1,380,238	-	-	-	1,380,238
Interest	106,003	-	-	-	106,003
Total expenditures	<u>10,086,421</u>	<u>-</u>	<u>5,824</u>	<u>762,225</u>	<u>10,854,470</u>
Revenues over (under) expenditures	<u>(872,679)</u>	<u>-</u>	<u>(5,824)</u>	<u>(645,374)</u>	<u>(1,523,877)</u>
Other Financing Sources (Uses):					
Long-term debt issued	1,026,596	-	3,675,000	-	4,701,596
Transfers in	-	862,929	-	132,000	994,929
Transfers out	(573,999)	(185,864)	-	-	(759,863)
Total other financing sources (uses)	<u>452,597</u>	<u>677,065</u>	<u>3,675,000</u>	<u>132,000</u>	<u>4,936,662</u>
Net change in fund balances	<u>(420,082)</u>	<u>677,065</u>	<u>3,669,176</u>	<u>(513,374)</u>	<u>3,412,785</u>
Fund Balances:					
Beginning of year, July 1	<u>4,810,111</u>	<u>3,638,618</u>	<u>-</u>	<u>1,572,843</u>	<u>10,021,572</u>
End of year, June 30	<u>\$ 4,390,029</u>	<u>\$ 4,315,683</u>	<u>\$ 3,669,176</u>	<u>\$ 1,059,469</u>	<u>\$ 13,434,357</u>

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

TOWN OF BEAUFORT, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL ACTIVITIES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 3,412,785
Exhibit D reports revenues using a current financial resources basis, which generally means revenue is recognized when collected, or is expected to be collected, within 90 days of year-end. Exhibit B reports revenues when the earning process is complete, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for the following revenue types:	
Property taxes	2,312
Grants	(188,341)
Benefit payments paid and administrative expense for the LEOSSA and contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	81,389
Change in net pension liability	(257,381)
Change in total pension liability	76,908
Change in pension related deferred outflows	(125,626)
Change in pension related deferred inflows	(47,395)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	1,856,065
Gain/loss on sale of disposal of capital assets is not a use/source of current financial resources; therefore, it is not reported in the governmental funds statement.	(13,273)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(452,014)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	1,380,238
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(53,074)
Other long-term liabilities (accrued interest) are not due and payable in the current period and, therefore, are not reported in the funds.	(16,849)
Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, it is not a revenue, rather it is an increase in liabilities.	(4,701,596)
Total changes in net position of governmental activities per Exhibit B	\$ 954,148

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

TOWN OF BEAUFORT, NORTH CAROLINA

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund			
	Budgeted Amounts			Variance with Final Budget Over/Under
	Original	Final	Actual	
Revenues:				
Ad valorem taxes	\$ 3,933,260	\$ 3,948,260	\$ 4,035,156	\$ 86,896
Other taxes and licenses	1,948,861	1,948,861	2,338,652	389,791
Unrestricted intergovernmental	444,615	444,615	422,487	(22,128)
Restricted intergovernmental	120,000	231,138	907,825	676,687
Permits and fees	1,097,582	1,097,582	997,505	(100,077)
Sales and services	277,694	277,694	290,292	12,598
Investment earnings	24,000	24,000	83,936	59,936
Miscellaneous	546,700	571,739	137,889	(433,850)
Total revenues	8,392,712	8,543,889	9,213,742	669,853
Expenditures:				
Current:				
General government	1,509,028	1,538,141	983,001	555,140
Public safety	4,181,460	5,459,532	4,975,535	483,997
Public works	1,125,457	1,730,641	1,552,623	178,018
Environmental protection	644,409	637,591	557,039	80,552
Cultural and recreation	227,891	424,007	287,363	136,644
Non-departmental	339,046	499,375	244,619	254,756
Debt service:				
Principal	375,423	1,377,694	1,380,238	(2,544)
Interest	174,024	106,264	106,003	261
Total expenditures	8,576,738	11,773,245	10,086,421	1,686,824
Revenues over (under) expenditures	(184,026)	(3,229,356)	(872,679)	2,356,677
Other Financing Sources (Uses):				
Long-term debt issued	375,000	1,369,724	1,026,596	(343,128)
Transfers out	(460,433)	(573,999)	(573,999)	-
Total other financing sources (uses)	(85,433)	795,725	452,597	(343,128)
Appropriated fund balance	269,459	2,433,631	-	(2,433,631)
Net change in fund balance	\$ -	\$ -	(420,082)	\$ (420,082)
Fund Balance:				
Beginning of year, July 1			4,810,111	
End of year, June 30			\$ 4,390,029	

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

TOWN OF BEAUFORT, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2020

	Enterprise Fund
	Utility Fund
Assets:	
Current assets:	
Cash and cash equivalents	\$ 1,773,669
Accounts receivable, net	1,023,146
Restricted cash and cash equivalents	374,211
Total current assets	<u>3,171,026</u>
Non-current assets:	
Capital assets:	
Land and construction in progress	542,548
Capital assets, net of depreciation	<u>28,003,783</u>
Total capital assets	<u>28,546,331</u>
Total assets	<u>31,717,357</u>
Deferred Outflows of Resources:	
Pension deferrals	106,790
Contributions to pension plan in current fiscal year	<u>69,475</u>
Total deferred outflows of resources	<u>176,265</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	102,003
Compensated absences - current portion	51,491
Current portion of long-term debt	1,136,516
Liabilities to be paid from restricted assets:	
Customer deposits	<u>209,613</u>
Total current liabilities	<u>1,499,623</u>
Non-current liabilities:	
Other long-term debt	9,016,041
Net pension liability	<u>304,254</u>
Total non-current liabilities	<u>9,320,295</u>
Total liabilities	<u>10,819,918</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>7,291</u>
Net Position:	
Net investment in capital assets	18,393,774
Restricted	164,598
Unrestricted	<u>2,508,041</u>
Total net position	<u>\$ 21,066,413</u>

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

TOWN OF BEAUFORT, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Fund
	Utility Fund
Operating Revenues:	
Charges for sales and services	\$ 4,351,633
Tap fees	70,975
Connection fees	14,125
Miscellaneous revenue	1,002
Total operating revenues	<u>4,437,735</u>
Operating Expenses:	
Water operations	693,411
Sewer operations	1,793,385
Depreciation	986,922
Total operating expenses	<u>3,473,718</u>
Operating income (loss)	<u>964,017</u>
Non-Operating Revenues (Expenses):	
Interest income	23,756
Capacity use fees	63,500
Other non-operating revenues	2,700
Gain (loss) on sale of capital assets	(124,582)
Interest on long-term debt	<u>(225,847)</u>
Total non-operating revenues (expenses)	<u>(260,473)</u>
Income (loss) before capital contributions and transfers	703,544
Capital contributions	233,514
Transfers in (out)	<u>(235,066)</u>
Change in net position	701,992
Net Position:	
Beginning of year, July 1	<u>20,364,421</u>
End of year, June 30	<u><u>\$ 21,066,413</u></u>

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

TOWN OF BEAUFORT, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Enterprise Fund
	Utility Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 4,271,633
Cash paid for goods and services	(1,521,243)
Cash paid to employees	(896,952)
Customer deposits	16,563
Net cash provided (used) by operating activities	<u>1,870,001</u>
Cash Flows from Non-Capital Financing Activities:	
Capital contributions	233,514
Other non-operating revenues	2,700
Transfer in (out)	(235,066)
Net cash provided (used) by non-capital financing activities	<u>1,148</u>
Cash Flows from Capital and Related Financing Activities:	
Financing Activities:	
Acquisition and construction of capital assets	(312,372)
Capacity use fees collected	63,500
Sale of capital assets	505,050
Deposits received from sale of property	(25,000)
Principal paid on long-term debt	(1,224,736)
Interest paid on long-term debt	(248,364)
Net cash provided (used) for capital and related financing activities	<u>(1,241,922)</u>
Cash Flows from Investing Activities:	
Interest received from investments	<u>23,756</u>
Net increase (decrease) in cash and cash equivalents	652,983
Cash and Cash Equivalents:	
Beginning of year, July 1	<u>1,494,897</u>
End of year, June 30	<u>\$ 2,147,880</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 964,017
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	986,922
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(166,102)
Increase (decrease) in accounts payable	3,310
Increase (decrease) in accrued compensated absences	6,569
Increase (decrease) in customer deposits	16,563
(Increase) decrease in deferred outflows of resources for pensions	6,355
Increase (decrease) in deferred inflows of resources for pensions	(4,132)
Increase (decrease) in net pension liability	56,499
Net cash provided (used) by operating activities	<u>\$ 1,870,001</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, 2020

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The Town reports the following major governmental funds:

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

Capital Reserve Fund – This capital project fund is used to accumulate resources for future capital projects.

Street Rehabilitation and Pedestrian Improvements Fund – This capital project fund is used for street rehabilitation and pedestrian improvements.

The Town reports the following nonmajor governmental funds:

ZSR Grant Fund – This special revenue fund is used to account for the ZSR grant.

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

Utilities, Stormwater, and Streets Improvement Fund – This capital project fund is used for USDA funded utility improvements.

The Town reports the following major enterprise funds:

Utility Fund – This fund is used to account for the Town's water and sewer operations. A Utility Capital Project Fund has been consolidated into the Utility Fund for financial reporting purposes. The budgetary comparison for the Utility Capital Project Fund has been included in the supplemental information.

C. Measurement Focus and Basis of Accounting

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

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

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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's 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 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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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. Sales taxes are considered a shared revenue for the Town because the tax is levied by Carteret County and then remitted to and distributed by the state. Most intergovernmental revenues and sales and services are not susceptible to accrual, because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 and enterprise funds. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Capital Reserve Fund, the Street Rehabilitation and Pedestrian Improvements Fund, the Community Improvement Fund, the ZSR Grant Fund, and the Utilities, Stormwater, and Improvement Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$25,000. All amendments must be approved by the governing board. The Town Manager is authorized to transfer funds from one appropriation to another within the same fund without limitation. Funds may not be transferred between funds without prior approval from the Board. Upon notification of funding increases or decreases to existing grants or revenues, or the award of grants or revenues, the Town Manager may adjust budgets to match, including grants that require a match for which funds are available. 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, Deferred Outflows/Inflows of Resources, and Fund Equity

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 SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating, and is measured at fair value. As of June 30, 2020, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Cash and Cash Equivalents

The Town pools monies from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Capacity impact fees are classified as restricted because the funds collected are to be expended only for the purpose in which it was collected. Powell Bill funds are also classified as restricted cash because it can only be expended for the purposes outlined in G.S. 136-41.1 through 136-41.4 of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. The unexpended debt proceeds of the Street Rehabilitation and Pedestrian Improvements Fund's long-term debt issued are classified as restricted assets because their use is completely restricted for the purpose of which the debt was originally issued. Advance from grantor in the ZSR Fund is classified as restricted because its use is completely restricted for the purpose for which the grant funding was awarded. Donations received that were placed in the Community Improvement Fund is restricted for the purpose in which it was collected: projects for community improvements.

	<u>Restricted Cash</u>
Governmental Activities:	
General Fund:	
Powell Bill - streets	\$ 20,440
Street Rehabilitation and Pedestrian Improvements Fund:	
Unspent debt proceeds	3,669,176
Nonmajor Fund:	
ZSR Fund - advance from grantor	37,270
Community Improvement Fund - donations	<u>1,221,539</u>
	<u>4,948,425</u>
 Business-Type Activities:	
Utility Fund:	
Customer deposits	209,613
Capacity impact fees	<u>164,598</u>
	<u>374,211</u>
 Total	 <u><u>\$ 5,322,636</u></u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019.

Allowances 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.

Prepaid Expenses

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets, except for land and construction in progress, are depreciated on the straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset</u>	<u>Estimated Useful Lives</u>
Computer equipment	5-7 years
Vehicles	7-10 years
Equipment and fixtures	7-10 years
Buildings	25-40 years
Infrastructure	20-60 years

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Deferred Outflows/Inflows of Resources

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

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.

Long-Term Obligations

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

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

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, 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 five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

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

Restricted Fund Balance

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

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by state statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by state statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred inflows arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed to law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as non-spendable. Outstanding encumbrances are included within RSS. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

Restricted for Economic Development – portion of fund balance that is restricted by revenue source for certain economic development expenditures.

Restricted for Public Works – portion of fund balance that is restricted by revenue source for street rehabilitation and pedestrian improvements. This is unspent debt proceeds at year end.

Restricted fund balance differs on Exhibit A from Exhibit C for unspent debt proceeds in the governmental funds of \$3,669,176.

Committed Fund Balance

This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Beaufort's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Environmental Protection – portion of fund balance that has been committed by the Board for future capital needs in environmental protection.

Public Works – portion of fund balance that has been committed by the Board for future capital needs in public works.

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes. The governing board has the authority to assign fund balance through the budget process.

Unassigned Fund Balance

The portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds. The General Fund is the only fund that may report a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond and debt proceeds, federal funds, state funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

The Town has adopted a financial policy that includes a minimum fund balance policy for the General Fund, which states that the General Fund unassigned fund balance at the close of each fiscal year shall not be less than 20 percent of actual General Fund net expenditures without prior approval of the Board.

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	\$ 4,390,029
Less:	
Prepaid items	(144,432)
Stabilization by state statute	<u>(944,534)</u>
Available for appropriation	<u>\$ 3,301,063</u>

F. Defined Benefit Cost-Sharing Plans

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

G. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town are either insured or collateralized using the Pooling Method. Under this method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Town's deposits had a carrying amount of \$6,683,909 and a bank balance of \$6,962,720. Of the bank balance, \$561,541 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. At June 30, 2020, the Town's petty cash on hand totaled \$400.

Investments

At June 30, 2020, the Town had \$8,559,299 invested with North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no formal policy regarding credit risk.

Receivables – Allowances for Doubtful Accounts

The amounts presented in the balance sheet and the Statement of Net Position as of June 30, 2020 are net of the following allowances for doubtful accounts:

	General Fund	Utility Fund
Solid waste receivable	\$ 18,046	\$ -
Taxes receivable	38,997	-
Water receivable	-	106,053
Sewer receivable	-	78,498
Total	<u>\$ 57,043</u>	<u>\$ 184,551</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Due from other governments consists of the following at June 30, 2020:

Utility sales tax	\$ 73,421
Local option sales tax	471,398
Due from County	58,065
Grants receivable	132,587
Sales tax refund	72,341
Others	75,320
Total	<u>\$ 883,132</u>

Capital Assets

The following is a summary of changes in the governmental capital assets during the fiscal year:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>
By Type:				
Non-Depreciable Capital Assets:				
Land and improvements	\$ 2,071,212	\$ -	\$ -	\$ 2,071,212
Construction in progress	439,797	655,319	-	1,095,116
Total non-depreciable capital assets	<u>2,511,009</u>	<u>655,319</u>	<u>-</u>	<u>3,166,328</u>
Depreciable Capital Assets:				
Buildings and improvements	5,431,198	-	-	5,431,198
Infrastructure	1,745,477	-	-	1,745,477
Equipment and fixtures	1,370,726	11,802	6,375	1,376,153
Vehicles	2,989,696	1,188,944	238,490	3,940,150
Total depreciable capital assets	<u>11,537,097</u>	<u>1,200,746</u>	<u>244,865</u>	<u>12,492,978</u>
Less Accumulated Depreciation:				
Buildings and improvements	887,192	140,108	-	1,027,300
Infrastructure	315,397	55,929	-	371,326
Equipment and fixtures	936,285	79,201	6,375	1,009,111
Vehicles	2,212,242	176,776	225,217	2,163,801
Total accumulated depreciation	<u>4,351,116</u>	<u>\$ 452,014</u>	<u>\$ 231,592</u>	<u>4,571,538</u>
Depreciable capital assets, net	<u>7,185,981</u>			<u>7,921,440</u>
Capital assets, net	<u>\$ 9,696,990</u>			<u>\$ 11,087,768</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Depreciation was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 51,199
Public safety	246,886
Public works	120,683
Cultural and recreational	28,797
Planning and inspections	4,449
Total	<u>\$ 452,014</u>

The following is summary of changes in the business-type capital assets for the fiscal year:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>
Non-Depreciable Capital Assets:				
Land and improvements	\$ 1,073,691	\$ -	\$ 629,632	\$ 444,059
Construction in progress	-	98,489	-	98,489
Total non-depreciable capital assets	<u>1,073,691</u>	<u>98,489</u>	<u>629,632</u>	<u>542,548</u>
Depreciable Capital Assets:				
Equipment and fixtures	899,319	54,372	-	953,691
Vehicles	390,682	159,511	31,460	518,733
Buildings and improvements	1,361,814	-	-	1,361,814
Plant and collection system	31,714,522	-	-	31,714,522
Plant and distribution system	6,231,601	-	-	6,231,601
Total depreciable capital assets	<u>40,597,938</u>	<u>213,883</u>	<u>31,460</u>	<u>40,780,361</u>
Less Accumulated Depreciation:				
Equipment and fixtures	509,546	61,051	-	570,597
Vehicles	276,082	30,010	31,460	274,632
Buildings and improvements	1,019,441	20,389	-	1,039,830
Plant and collection system	8,270,831	765,635	-	9,036,466
Plant and distribution system	1,745,216	109,837	-	1,855,053
Total accumulated depreciation	<u>11,821,116</u>	<u>\$ 986,922</u>	<u>\$ 31,460</u>	<u>12,776,578</u>
Depreciable capital assets, net	<u>28,776,822</u>			<u>28,003,783</u>
Capital assets, net	<u>\$ 29,850,513</u>			<u>\$ 28,546,331</u>

Construction Commitments

The government has active construction projects as of June 30, 2020. At year-end, the government's commitment with contractors is as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining</u> <u>Commitment</u>
Cedar St./Randolph Johnson Water Tower Park	<u>\$ 1,002,562</u>	<u>\$ 997,438</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2020 is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets, net of depreciation	\$ 11,087,768	\$ 28,546,331
Long-term debt	(7,721,305)	(10,152,557)
Unspent debt proceeds	3,669,176	-
Net investment in capital assets	<u>\$ 7,035,639</u>	<u>\$ 18,393,774</u>

B. Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2020 were as follows:

Type of Payable	Governmental Activities	Business-Type Activities	Total
Trade payables	\$ 347,709	\$ 21,055	\$ 368,764
Accrued interest	69,327	40,912	110,239
Accrued salaries and benefits	193,551	40,036	233,587
Total	<u>\$ 610,587</u>	<u>\$ 102,003</u>	<u>\$ 712,590</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The 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, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Beaufort employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 9.01% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$385,970 for the year ended June 30, 2020.

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

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

At June 30, 2020, the Town reported a liability of \$1,620,802 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020, the Town's proportion was 0.0594% (measured as of June 30, 2019), which was an increase of 0.0043% from its proportion measure as of June 30, 2019 (measured as of June 30, 2018).

For the year ended June 30, 2020, the Town recognized pension expense of \$712,206. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 277,522	\$ -
Changes in assumptions	264,164	-
Net difference between projected and actual earnings on pension plan investments	39,534	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,055	23,175
Town contributions subsequent to the measurement date	385,970	-
Total	<u>\$ 979,245</u>	<u>\$ 23,175</u>

\$385,970 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2021	\$ 278,130
2022	84,867
2023	159,183
2024	47,920
2025	-
Thereafter	-
Total	<u>\$ 570,100</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan actuary currently uses mortality rates based on the *RP-2014 Total Data Set for Healthy Annuitants Mortality Table* that vary by age, gender, employee group (i.e. general, law enforcement officer), and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study as of December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	100.0%	

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The information above is based on 30-year expectations developed with the consulting actuary for the 2019 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contribution from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Town's proportionate share of the net pension asset, or net pension liability, would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 3,707,071</u>	<u>\$ 1,620,802</u>	<u>\$ (113,310)</u>

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

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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, 2020

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Inactive members currently receiving benefits	3
Active plan members	<u>16</u>
Total	<u><u>19</u></u>

Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay-as-you-go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria, which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2018 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increase	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 percent

The discount rate used to measure the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ending December 31, 2014.

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

Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and, at present, has chosen to fund the amounts necessary to cover the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$42,121 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$437,343. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was rolled forward to December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$47,163.

At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 79,896	\$ 70,801
Changes of assumptions and other inputs	23,432	16,107
Town benefit payments and plan administrative expense made subsequent to the measurement date	21,253	-
Total	<u>\$ 124,581</u>	<u>\$ 86,908</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

The \$21,253 reported as deferred outflows of resources related to pensions resulting from the Town benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2021. Other amount reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending	
June 30	Amount
2021	\$ 7,332
2022	7,332
2023	7,908
2024	3,521
2025	(9,673)
Thereafter	-
Total	<u>\$ 16,420</u>

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26% as well as what the Town's total pension liability would be if they were calculated using a discount rate that is one percentage point lower (2.26%) or one percentage point higher (4.26%) than the current rate.

	1% Decrease (2.26%)	Current Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	<u>\$ 469,908</u>	<u>\$ 437,343</u>	<u>\$ 407,913</u>

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

	2020
Beginning balance	\$ 514,251
Service cost	21,429
Interest on the total pension liability	17,952
Differences between expected and actual experience in the measurement of the total pension liability	(85,707)
Changes of assumptions or other inputs	11,539
Benefit payments	(42,121)
Ending balance of the total pension liability	<u>\$ 437,343</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.64 percent at December 31, 2018 to 3.26 percent at December 31, 2019.

Changes in Benefit Terms. Reported compensation adjust to reflect the assumed rate of pay as of the valuation date.

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

Following is information related to the proportionate share and pension expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Proportionate share of net pension liability (asset)	0.0594%	N/A	\$ -
Total pension liability	N/A	\$ 437,343	437,343
Net pension liability	\$ 1,620,802	N/A	1,620,802
Pension expense	712,206	47,163	759,369

Deferred Outflows of Resources

Differences between expected and actual experience	\$ 277,522	\$ 79,896	\$ 357,418
Changes in assumptions	264,164	23,432	287,596
Net difference between projected and actual earnings on pension plan investments	39,534	-	39,534
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,055	-	12,055
Town contributions subsequent to the measurement date	385,970	21,253	407,223
Total	<u>\$ 979,245</u>	<u>\$ 124,581</u>	<u>\$ 1,103,826</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ -	\$ 70,801	\$ 70,801
Changes in proportion and differences between Town contributions and proportionate share of contributions	23,175	-	23,175
Changes in assumptions	-	16,107	16,107
Total	<u>\$ 23,175</u>	<u>\$ 86,908</u>	<u>\$ 110,083</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan for Law Enforcement Officers (Plan), a defined contribution pension plan administered by the Department of State Treasurer 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 Plan 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 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. Employees may make voluntary contributions to the Plan. The Town made contributions of \$75,066 for the reporting year. No amounts were forfeited.

Supplemental Retirement Income Plan – Employees Other Than Law Enforcement Officers

The Town has elected to include all other employees in the plan and contribute an amount equal to five percent of each employee's salary for all employees who participate in the plan. The Town made contributions of \$210,447 for the reporting year. No amounts were forfeited.

Post-Employment Benefits

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan available to all Town employees permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation in the plan is at the option of the employee. Investments are managed by the Plan's trustee under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants. Employee contributions to the plan during fiscal year 2020 amounted to \$4,430.

The Town has complied with changes in the laws, which govern the Town's deferred compensation plans, requiring all position of the plans to be held in trust for the exclusive benefit of the participants and their beneficiaries. In accordance with GASB Statement 32, "Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans", the Town's Deferred Compensation Plans are not reported as Town agency funds.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

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. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. 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. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Benefit payments made and administration expenses for pension	\$ 407,223
Differences between expected and actual experience	357,418
Changes of assumptions	287,596
Net difference between projected and actual earnings on pension plan investments	39,534
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,055
Total	<u>\$ 1,103,826</u>

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

<u>Source</u>	<u>Amount</u>
Property taxes receivable	\$ 185,987
Prepaid rent	171,807
Differences between expected and actual experience	70,801
Changes of assumptions	16,107
Changes in proportion and differences between Town contributions and proportionate share of contributions	23,175
Total	<u>\$ 467,877</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$2 million per occurrence, property coverage up to \$31,656,467, workers' compensation coverage up to \$500,000. The pools are reinsured through commercial companies for single occurrence claims against general liability, and auto liability in excess of \$1,000,000, and \$150,000 for workers' compensation.

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

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

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

Claims, Judgements and Contingent Liabilities

At June 30, 2020, the Town was a defendant to various lawsuits. In the opinion of the Town's management and attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Long-Term Obligations

Installment Purchases

Installment purchases at June 30, 2020 are comprised of the following individual agreements:

Business-Type Activities (direct borrowing):

\$602,293 NCDEQ loan issued December 2005, for the Cedar Street Sanitary Sewer Rehabilitation project; interest at 2.205%, payable in annual principal installments of \$30,115 and semi-annual interest payments through fiscal year May 2026; secured by system assets \$ 180,687

\$592,554 NCDEQ loan issued July 2007, for the Sewer Force Main project; interest at 2.265%, payable in annual principal installments of \$29,628 and semi-annual interest payments through fiscal year May 2028; secured by system assets 237,021

\$5,557,814 NCDEQ loan issued July 2008, for the Waste Water Treatment Plant project; interest at 2.265%, payable in annual principal installments of \$277,766 and semi-annual interest payments through fiscal year May 2028; secured by system assets 2,222,124

\$1,011,208 NCDEQ loan issued November 2012, for the Well project; interest at 2.48%, payable in annual principal installments of \$50,560 and semi-annual interest payments through fiscal year May 2033; secured by system assets 657,285

\$14,023,600 NCDEQ loan issued April 2010, for the Waste Water Treatment Plant project; interest at 2.1%, payable in annual principal installments of \$692,017 and semi-annual interest payments through fiscal year May 2029; secured by system assets 6,228,150

\$935,000 NCDEQ loan issued April 2013, for the Sycamore Drive Water project; interest at 2.455%, payable in annual principal installments of \$46,750 and semi-annual interest payments through fiscal year May 2033; secured by system assets 607,750

Total business-type activities installment purchases - direct borrowing \$ 10,133,017

Installment purchase obligations from direct borrowing in the amount of \$10,133,017 include a provision that if the Town is found to be in default, the full amount of the obligation could become due immediately, at the discretion of the lender.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Annual debt service payments of the direct borrowing installment purchases as of June 30, 2020 are as follows:

Year Ending June 30	<u>Direct Borrowing</u>	
	<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,126,836	\$ 221,696
2022	1,126,836	197,136
2023	1,126,836	172,575
2024	1,126,836	148,015
2025	1,126,836	123,454
2026-2030	4,206,912	259,810
2031	291,925	14,410
Total	<u>\$ 10,133,017</u>	<u>\$ 1,137,096</u>

Governmental Activities (direct placement):

\$1,500,000 note issued June 2011, interest at 2.95%, payable in annual installments of \$100,000, plus interest, with a final payment due in fiscal year 2026; secured by building	\$ 700,000
\$3,675,000 note issued April 2020, interest at 2.44%, payable in annual installments of \$245,000, plus interest, with a final payment due in fiscal year 2035; secured by equipment	3,675,000
\$3,000,000 note issued December 2015, interest at 3.35%, payable in semi-annual installments of \$100,000, including interest, with a final payment due in fiscal year 2030; secured by building	2,200,000
\$1,001,687 note issued April 2020, interest at 2.19%, payable in annual installments of \$79,202, including interest, with a final payment due in fiscal year 2035; secured by vehicle	1,001,687
\$292,400 note issued October 2016, interest at 1.87%, payable in annual installments of \$71,752, plus interest, with a final payment due in fiscal year 2021; secured by equipment and vehicles	120,036
\$39,568 note issued June 2018, interest at 3.61%, payable in annual installments of \$8,803, including interest, with a final payment due in fiscal year 2023; secured by equipment	<u>24,582</u>
Total governmental activities installment purchases - direct placement	<u>\$ 7,721,305</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Business-Type Activities (direct placement):

\$47,600 note issued October 2016, interest at 1.87%, payable in annual installments of \$71,752, plus interest, with a final payment due in fiscal year 2021; secured by equipment and vehicles \$ 19,540

Total business-type activities installment purchases - direct placement \$ 19,540

Installment purchase obligations from direct placements in the amount of \$7,740,845 include a provision that if the Town is determined to be in default, the full amount of the obligation could become due immediately, at the discretion of the lender.

Annual debt service payments of the direct placement installment purchases as of June 30, 2020 are as follows:

Year Ending June 30	Direct Placement			
	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2021	\$ 670,412	\$ 205,678	\$ 9,680	\$ 365
2022	669,636	189,176	9,860	184
2023	613,247	169,367	-	-
2024	606,069	152,119	-	-
2025	607,406	135,154	-	-
2026-2030	2,758,141	433,516	-	-
2031-2035	1,796,394	119,108	-	-
Total	<u>\$ 7,721,305</u>	<u>\$ 1,404,118</u>	<u>\$ 19,540</u>	<u>\$ 549</u>

At June 30, 2020, the Town of Beaufort had a legal debt margin of \$62,490,186.

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Long-Term Debt Obligation Activity

The following is a summary of the changes in the governmental activities long-term debt obligations as of June 30, 2020:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Installment purchases - direct placement	\$ 3,424,856	\$ 4,676,687	\$ 380,238	\$ 7,721,305	\$ 670,412
Installment purchases - direct borrowing	975,091	24,909	1,000,000	-	-
Compensated absences	177,416	285,671	232,597	230,490	230,490
Net pension liability (LGERS)	1,059,167	257,381	-	1,316,548	-
Total pension liability (LEO)	514,251	-	76,908	437,343	-
Total	<u>\$ 6,150,781</u>	<u>\$ 5,244,648</u>	<u>\$ 1,689,743</u>	<u>\$ 9,705,686</u>	<u>\$ 900,902</u>

The following is a summary of changes in the Town's business-type activities long-term debt:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
By Type of Debt:					
Installment purchases - direct placement	\$ 117,440	\$ -	\$ 97,900	\$ 19,540	\$ 9,680
Installment purchases - direct borrowing	11,259,853	-	1,126,836	10,133,017	1,126,836
Compensated absences	44,922	61,741	55,172	51,491	51,491
Net pension liability (LGERS)	247,755	56,499	-	304,254	-
Total	<u>\$ 11,669,970</u>	<u>\$ 118,240</u>	<u>\$ 1,279,908</u>	<u>\$ 10,508,302</u>	<u>\$ 1,188,007</u>

TOWN OF BEAUFORT, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds during the year ended June 30, 2020 consist of the following:

	<u>Amount</u>
From the Capital Reserve Fund to the Utilities, Stormwater, and Streets Improvements Fund for share of future capital projects	\$ 87,000
From the Capital Reserve Fund to the Utility Capital Project Fund for share of future capital projects	98,864
From the General Fund to the Utilities, Stormwater, and Streets Improvements Fund for share of future capital projects	45,000
From the Utility Fund to the Capital Reserve Fund for share of future capital projects	333,930
From the General Fund to the Capital Reserve Fund for share of future capital projects	<u>528,999</u>
	<u><u>\$ 1,093,793</u></u>

3. Federal and State-Assisted Programs

The Town has received proceeds from federal and state grants. Periodic audits of these grants are required, and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies 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.

4. Subsequent Event

In March 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19), a pandemic. As a result, economic uncertainties have arisen, which are likely to negatively impact Town revenues. At the current time, we are unable to quantify the potential effects of this pandemic.

TOWN OF BEAUFORT, NORTH CAROLINA**PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)****REQUIRED SUPPLEMENTARY INFORMATION****LAST SEVEN FISCAL YEARS ***

	Local Governmental Employees' Retirement System						
	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.0594%	0.0551%	0.0523%	0.0539%	0.0548%	0.0520%	0.0510%
Town's proportion of the net pension liability (asset) (\$)	\$ 1,620,802	\$ 1,306,922	\$ 798,234	\$ 1,143,301	\$ 246,074	\$ (306,668)	\$ 618,362
Town's covered payroll	\$ 3,593,838	\$ 3,137,753	\$ 2,967,679	\$ 2,836,171	\$ 2,718,474	\$ 2,729,254	\$ 2,660,526
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	45.10%	41.65%	26.90%	40.31%	9.05%	(11.24%)	23.24%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

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

TOWN OF BEAUFORT, NORTH CAROLINA**TOWN OF BEAUFORT'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SEVEN FISCAL YEARS**

	Local Governmental Employees' Retirement System						
	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 385,970	\$ 286,716	\$ 242,371	\$ 224,174	\$ 196,906	\$ 195,733	\$ 189,874
Contributions in relation to the contractually required contribution	<u>385,970</u>	<u>286,716</u>	<u>242,371</u>	<u>224,174</u>	<u>196,906</u>	<u>195,733</u>	<u>189,874</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 4,213,495	\$ 3,593,838	\$ 3,137,753	\$ 2,967,679	\$ 2,836,171	\$ 2,718,474	\$ 2,729,254
Contributions as a percentage of of covered payroll	9.16%	7.98%	7.72%	7.55%	6.94%	7.20%	6.96%

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

TOWN OF BEAUFORT, NORTH CAROLINA
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 514,251	\$ 431,071	\$ 383,955	\$ 376,220
Service cost at end of year	21,429	22,208	18,912	19,064
Interest on the total pension liability	17,952	12,956	14,304	13,155
Differences between expected and actual experience in the measurement of the total pension liability	(85,707)	109,124	14,495	-
Changes of assumptions or other inputs	11,539	(18,987)	26,167	(9,042)
Benefit payments	<u>(42,121)</u>	<u>(42,121)</u>	<u>(26,762)</u>	<u>(15,442)</u>
Ending balance of the total pension liability	<u>\$ 437,343</u>	<u>\$ 514,251</u>	<u>\$ 431,071</u>	<u>\$ 383,955</u>

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

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

TOWN OF BEAUFORT, NORTH CAROLINA

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE
OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST FOUR FISCAL YEARS**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 437,343	\$ 514,251	\$ 431,071	\$ 383,955
Covered payroll	\$ 808,593	\$ 706,932	\$ 723,729	\$ 692,771
Total pension liability as a percentage of covered payroll	54.09%	72.74%	59.56%	55.42%

Notes to the Schedules:

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

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

TOWN OF BEAUFORT, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 4,019,305	
Penalties and interest		15,851	
Total ad valorem taxes	\$ 3,948,260	4,035,156	\$ 86,896
Other Taxes and Licenses:			
Local option sales tax		1,655,966	
Fire district sales tax		110,000	
Harlowe district sales tax		21,234	
Fire district ad valorem taxes		322,940	
Harlowe fire district ad valorem taxes		63,235	
ABC net revenues		165,277	
Total other taxes and licenses	1,948,861	2,338,652	389,791
Unrestricted Intergovernmental Revenues:			
Utility franchise tax		379,278	
Beer and wine tax		18,155	
Payments in lieu of tax		25,054	
Total unrestricted intergovernmental revenues	444,615	422,487	(22,128)
Restricted Intergovernmental Revenues:			
Other grants		788,917	
Powell Bill allocation		118,908	
Total restricted intergovernmental revenues	231,138	907,825	676,687
Permits and Fees:			
Building permits		143,654	
Court and parking fees		122,177	
Stormwater fees		137,465	
Garbage and recycle fees		555,563	
Solid waste fees		33,726	
Special events fee		4,920	
Total permits and fees	1,097,582	997,505	(100,077)
Sales and Services:			
Rents		288,015	
Sales of cemetery lots		2,277	
Total sales and services	277,694	290,292	12,598
Interest:			
Investment earnings	24,000	83,936	59,936

TOWN OF BEAUFORT, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget	Actual	Variance Over/Under
Miscellaneous Revenues:			
Donations		15,000	
Insurance reimbursements		20,982	
Miscellaneous		101,907	
Total miscellaneous revenues	571,739	137,889	(433,850)
 Total revenues	 8,543,889	 9,213,742	 669,853
 Expenditures:			
General Government:			
Governing Board:			
Governing board fees		49,992	
Operating expenditures		34,859	
Cost allocation		(76,650)	
Total governing board	95,400	8,201	87,199
 Administration:			
Salaries and benefits		570,961	
Operating expenditures		158,257	
Capital outlay		17,306	
Cost allocation		(178,850)	
Total administration	745,892	567,674	178,218
 Finance:			
Salaries and benefits		360,065	
Tax collection fees		90,590	
Operating expenditures		39,853	
Cost allocation		(219,730)	
Total finance	505,336	270,778	234,558
 Parking:			
Salaries and benefits		61,877	
Operating expenditures		74,471	
Total parking	191,513	136,348	55,165
 Total general government	 1,538,141	 983,001	 555,140
 Public Safety:			
Police:			
Salaries and benefits		1,462,498	
Operating expenses		249,434	
Hurricane		3,470	
Capital outlay		56,966	
Total police	1,798,007	1,772,368	25,639

TOWN OF BEAUFORT, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget	Actual	Variance Over/Under
Fire Department:			
Salaries and benefits		1,426,293	
Operating expenses		248,302	
Hurricane		5,890	
COVID-19		2,400	
Capital outlay		1,056,225	
Total fire department	3,179,445	2,739,110	440,335
Planning and Inspections:			
Salaries and benefits		423,034	
Operating expenditures		19,419	
Capital outlay		21,604	
Total planning and inspections	482,080	464,057	18,023
Total public safety	5,459,532	4,975,535	483,997
Public Works:			
Salaries and benefits		751,058	
Operating expenditures		248,561	
Street lights		122,134	
Street maintenance		180,618	
Hurricane		188,663	
COVID-19		48,714	
Capital outlay		48,645	
Cost allocation		(35,770)	
Total public works	1,730,641	1,552,623	178,018
Environmental Protection:			
Sanitation:			
Operating expenditures		421,187	
Garbage and trash collection		106,044	
Total sanitation	510,409	527,231	(16,822)
Stormwater:			
Operating expenditures		29,808	
Total stormwater	127,182	29,808	97,374
Total environmental protection	637,591	557,039	80,552
Cultural and Recreation:			
Operating expenditures		287,363	
Total cultural and recreation	424,007	287,363	136,644

TOWN OF BEAUFORT, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Non-Departmental:			
Eury's Landing Condominium annual dues		800	
Human resources		16,881	
Employee engagement		9,848	
Professional services		63,591	
Legal services		133,408	
Hurricane		1,095	
COVID-19		6,715	
Others		12,281	
Total non-departmental	<u>499,375</u>	<u>244,619</u>	<u>254,756</u>
Debt Service:			
Principal	1,377,694	1,380,238	(2,544)
Interest	<u>106,264</u>	<u>106,003</u>	<u>261</u>
Total debt service	<u>1,483,958</u>	<u>1,486,241</u>	<u>(2,283)</u>
 Total expenditures	<u>11,773,245</u>	<u>10,086,421</u>	<u>1,686,824</u>
 Revenues over (under) expenditures	<u>(3,229,356)</u>	<u>(872,679)</u>	<u>2,356,677</u>
Other Financing Sources (Uses):			
Long-term debt issued	1,369,724	1,026,596	(343,128)
Transfers out	<u>(573,999)</u>	<u>(573,999)</u>	<u>-</u>
Total other financing sources (uses)	<u>795,725</u>	<u>452,597</u>	<u>(343,128)</u>
 Appropriated fund balance	<u>2,433,631</u>	<u>-</u>	<u>(2,433,631)</u>
 Net change in fund balance	<u>\$ -</u>	<u>(420,082)</u>	<u>\$ (420,082)</u>
Fund Balance:			
Beginning of year, July 1		<u>4,810,111</u>	
 End of year, June 30		<u>\$ 4,390,029</u>	

TOWN OF BEAUFORT, NORTH CAROLINA

CAPITAL RESERVE FUND - MAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total	Variance Over/Under
Expenditures:					
Public Works:					
Future capital outlay	\$ 4,293,179	\$ -	\$ -	\$ -	\$ 4,293,179
Revenues over (under) expenditures	(4,293,179)	-	-	-	4,293,179
Other Financing Sources (Uses):					
Transfer to Utility Capital Project Fund	(98,864)	-	(98,864)	(98,864)	-
Transfer to Capital Project Fund	(87,000)	-	(87,000)	(87,000)	-
Transfer from Utility Fund	3,185,942	2,874,516	333,930	3,208,446	22,504
Transfer from General Fund	1,293,101	764,102	528,999	1,293,101	-
Total other financing sources (uses)	4,293,179	3,638,618	677,065	4,315,683	22,504
Net change in fund balance	\$ -	\$ 3,638,618	677,065	\$ 4,315,683	\$ 4,315,683
Fund Balance:					
Beginning of year - July 1			3,638,618		
End of year - June 30			\$ 4,315,683		

TOWN OF BEAUFORT, NORTH CAROLINA

STREET REHABILITATION AND PEDESTRIAN IMPROVEMENTS - MAJOR CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total	Variance Over/Under
Expenditures:					
Public works:					
Engineering	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
Construction	3,378,804	-	-	-	3,378,804
Admin and legal	106,446	-	5,824	5,824	100,622
Contingency	174,750	-	-	-	174,750
Total expenditures	<u>3,675,000</u>	<u>-</u>	<u>5,824</u>	<u>5,824</u>	<u>3,669,176</u>
Revenues over (under) expenditures	(3,675,000)	-	(5,824)	(5,824)	3,669,176
Other Financing Sources (Uses):					
Long-term debt issued	<u>3,675,000</u>	<u>-</u>	<u>3,675,000</u>	<u>3,675,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>3,669,176</u>	<u>\$ 3,669,176</u>	<u>\$ 3,669,176</u>
Fund Balance:					
Beginning of year - July 1			<u>-</u>		
End of year - June 30			<u>\$ 3,669,176</u>		

TOWN OF BEAUFORT, NORTH CAROLINA

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2020

	Capital Project Funds			
	Special Revenue Fund		Utilities, Stormwater, and Streets Improvement Fund	Total Nonmajor Governmental Funds
	ZSR Grant Fund	Community Improvement Fund		
Assets:				
Cash and cash equivalents	\$ 8	\$ -	\$ 58,050	\$ 58,058
Restricted cash and cash equivalents	37,270	1,221,539	-	1,258,809
Total assets	<u>\$ 37,278</u>	<u>\$ 1,221,539</u>	<u>\$ 58,050</u>	<u>\$ 1,316,867</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 207,348	\$ 12,780	\$ 220,128
Advance from grantor	37,270	-	-	37,270
Total liabilities	<u>37,270</u>	<u>207,348</u>	<u>12,780</u>	<u>257,398</u>
Fund Balances:				
Restricted:				
Cultural and recreation	-	1,014,191	-	1,014,191
Economic development	8	-	-	8
Committed:				
Environmental protection	-	-	45,270	45,270
Total fund balances	<u>8</u>	<u>1,014,191</u>	<u>45,270</u>	<u>1,059,469</u>
Total liabilities and fund balances	<u>\$ 37,278</u>	<u>\$ 1,221,539</u>	<u>\$ 58,050</u>	<u>\$ 1,316,867</u>

TOWN OF BEAUFORT, NORTH CAROLINA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2020

	Capital Project Funds			
	Special	Utilities,		
	Revenue Fund	Community	Stormwater,	Total
	ZSR Grant	Improvement	and Streets	Nonmajor
	Fund	Fund	Improvement	Governmental
	Fund	Fund	Fund	Funds
Revenues:				
Restricted intergovernmental	\$ 112,730	\$ -	\$ -	\$ 112,730
Investment earnings	8	-	-	8
Miscellaneous	-	4,113	-	4,113
Total revenues	<u>112,738</u>	<u>4,113</u>	<u>-</u>	<u>116,851</u>
Expenditures:				
Current:				
Environmental protection	-	-	86,730	86,730
Cultural and recreation	-	562,765	-	562,765
Economic development	<u>112,730</u>	<u>-</u>	<u>-</u>	<u>112,730</u>
Total expenditures	<u>112,730</u>	<u>562,765</u>	<u>86,730</u>	<u>762,225</u>
Revenues over (under) expenditures	8	(558,652)	(86,730)	(645,374)
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>132,000</u>	<u>132,000</u>
Net change in fund balances	8	(558,652)	45,270	(513,374)
Fund Balances:				
Beginning of year, July 1	<u>-</u>	<u>1,572,843</u>	<u>-</u>	<u>1,572,843</u>
End of year, June 30	<u>\$ 8</u>	<u>\$ 1,014,191</u>	<u>\$ 45,270</u>	<u>\$ 1,059,469</u>

TOWN OF BEAUFORT, NORTH CAROLINA

ZSR GRANT FUND - NONMAJOR SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020

		Actual			
	Project Authorization	Prior Years	Current Year	Total	Variance Over/Under
Revenues:					
Restricted intergovernmental	\$ 150,000	\$ -	\$ 112,730	\$ 112,730	\$ (37,270)
Investment earnings	-	-	8	8	8
Total revenues	<u>150,000</u>	<u>-</u>	<u>112,738</u>	<u>112,738</u>	<u>(37,262)</u>
Expenditures:					
Economic development:					
Staff	88,000	-	66,006	66,006	21,994
Consultants	56,160	-	42,344	42,344	13,816
Materials	1,000	-	941	941	59
Meetings	1,720	-	3,255	3,255	(1,535)
Travel	<u>3,120</u>	<u>-</u>	<u>184</u>	<u>184</u>	<u>2,936</u>
Total expenditures	<u>150,000</u>	<u>-</u>	<u>112,730</u>	<u>112,730</u>	<u>37,270</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	8	<u>\$ 8</u>	<u>\$ 8</u>
Fund Balance:					
Beginning of year - July 1			-		
End of year - June 30			<u>\$ 8</u>		

TOWN OF BEAUFORT, NORTH CAROLINA

COMMUNITY IMPROVEMENT FUND - NONMAJOR CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020

		Actual			
	Project Authorization	Prior Years	Current Year	Total	Variance Over/Under
Revenues:					
Donations	\$ -	\$ 12,640	\$ -	\$ 12,640	\$ 12,640
Recreation fees	-	-	4,113	4,113	4,113
Total revenues	-	12,640	4,113	16,753	16,753
Expenditures:					
Cultural and recreation:					
Cedar St./Randolph Johnson Water Tower Park	2,000,000	439,797	562,765	1,002,562	997,438
Revenues over (under) expenditures	(2,000,000)	(427,157)	(558,652)	(985,809)	1,014,191
Other Financing Sources (Uses):					
Transfers from General Fund	2,000,000	2,000,000	-	2,000,000	-
Net change in fund balance	\$ -	\$ 1,572,843	(558,652)	\$ 1,014,191	\$ 1,014,191
Fund Balance:					
Beginning of year - July 1			1,572,843		
End of year - June 30			\$ 1,014,191		

TOWN OF BEAUFORT, NORTH CAROLINA

UTILITIES, STORMWATER, AND STREETS IMPROVEMENTS - NONMAJOR CAPITAL PROJECT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - BUDGET AND ACTUAL
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total</u>	<u>Variance Over/Under</u>
Expenditures:					
Environmental protection:					
Engineering	\$ 132,000	\$ -	\$ 86,730	\$ 86,730	\$ 45,270
Revenues over (under) expenditures	(132,000)	-	(86,730)	(86,730)	(45,270)
Other Financing Sources (Uses):					
Transfers from General Fund	45,000	-	45,000	45,000	-
Transfers from Capital Reserve Fund	87,000	-	87,000	87,000	-
Total other financing sources (uses)	132,000	-	132,000	132,000	-
Net change in fund balance	\$ -	\$ -	45,270	\$ 45,270	\$ 45,270
Fund Balance:					
Beginning of year - July 1			-		
End of year - June 30			\$ 45,270		

TOWN OF BEAUFORT, NORTH CAROLINA

**ENTERPRISE FUND - UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues			
Operating Revenues:			
Charges for sales and services:			
Sewer service charges		\$ 3,074,789	
Water service charges		1,276,844	
Water and sewer tap fees		70,975	
Water connection fees		14,125	
Total operating revenues	\$ 4,310,564	4,436,733	\$ 126,169
Non-Operating Revenues:			
Capacity use fees		63,500	
Federal and state grants		233,514	
Other		508,752	
Investment earnings		23,756	
Total non-operating revenues	109,048	829,522	720,474
Total revenues	4,419,612	5,266,255	846,643
Expenditures			
Water Operations:			
Salaries and benefits		297,289	
Compliance testing		10,731	
Contract and professional services		116,216	
Permits		2,855	
Repairs and maintenance		21,045	
Supplies and maintenance		122,689	
Telephone and utilities		44,406	
Vehicle expense		2,834	
County water purchase		37,073	
Other		31,548	
Hurricane		156	
Capital outlay		32,806	
Total water operations	843,921	719,648	124,273
Sewer Operations:			
Salaries and benefits		664,954	
Compliance testing		8,360	
Contract and professional services		123,660	
Insurance		53,418	
Permits		7,410	
Repairs and maintenance		75,077	
Supplies and maintenance		72,293	

TOWN OF BEAUFORT, NORTH CAROLINA

ENTERPRISE FUND - UTILITY FUND SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP) FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Sewer Operations (continued):			
Telephone and utilities		187,370	
Vehicle expense		13,334	
Contribution to General Fund - admin services		511,000	
Other		16,315	
Hurricane		1,472	
Capital outlay		181,077	
Total sewer operations	2,052,286	1,915,740	136,546
Debt Service:			
Principal		1,224,736	
Interest		248,364	
Total debt service	1,473,098	1,473,100	(2)
 Total expenditures	4,369,305	4,108,488	260,817
 Revenues over (under) expenditures	50,307	1,157,767	1,107,460
 Other Financing Sources (Uses):			
Transfer from Capital Reserve Fund	22,504	-	(22,504)
Transfer (to) Capital Reserve Fund	(333,930)	(333,930)	-
Total other financing sources (uses)	(311,426)	(333,930)	(22,504)
 Appropriated fund balance	261,119	-	(261,119)
 Revenue and other financing sources over (under) expenditures and other financing uses	\$ -	823,837	\$ 823,837
 Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual Basis:			
Capital outlay additions		213,883	
Depreciation		(986,922)	
Principal payment		1,224,736	
Disposal of capital assets		(629,632)	
Transfers to Utility Capital Project Fund		98,864	
Change in net pension liability		(56,499)	
Change in deferred outflows of resources for contributions		17,866	
Change in deferred outflows of resources - pensions		(24,221)	
Change in deferred inflows of resources - pensions		4,132	
Change in accrued interest		22,517	
Change in accrued compensated absences		(6,569)	
 Change in net position		\$ 701,992	

TOWN OF BEAUFORT, NORTH CAROLINA**UTILITY CAPITAL PROJECT FUND****CEDAR STREET UTILITY REHAB / REPLACEMENT****SCHEDULE OF REVENUES AND EXPENDITURES -****BUDGET AND ACTUAL (NON-GAAP)****FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2020**

		<u>Actual</u>			
	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Variance Over/Under</u>
Expenditures:					
Engineering and design	\$ 98,864	\$ -	\$ 98,489	\$ 98,489	\$ 375
Other Financing Sources (Uses):					
Transfers from Capital Reserve Fund	98,864	-	98,864	98,864	-
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375</u>	<u>\$ 375</u>	<u>\$ 375</u>

TOWN OF BEAUFORT, NORTH CAROLINA**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2020**

Fiscal Year	Uncollected Balance July 1, 2019	Additions	Collections and Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 4,032,722	\$ 3,936,144	\$ 96,578
2018-2019	89,320	-	51,581	37,739
2017-2018	42,875	-	13,679	29,196
2016-2017	35,299	-	12,255	23,044
2015-2016	15,353	-	5,217	10,136
2014-2015	10,073	-	6,077	3,996
2013-2014	10,979	42	42	10,979
2012-2013	8,259	-	42	8,217
2011-2012	5,157	58	116	5,099
2010-2011	1,989	5	1,994	-
Total	\$ 219,304	\$ 4,032,827	\$ 4,027,147	224,984
Less allowance for uncollectible ad valorem taxes receivable				<u>(38,997)</u>
Ad Valorem Taxes Receivable, net				\$ <u>185,987</u>
Reconciliation with Revenues:				
Taxes, ad valorem - General Fund			\$	4,035,156
Penalties and interest				(15,851)
Amounts written off for tax years per statute of limitations				1,994
Miscellaneous adjustments				<u>5,848</u>
Total collections and credits			\$	<u><u>4,027,147</u></u>

TOWN OF BEAUFORT, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2020

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 876,448,316	0.46	\$ 4,031,662	\$ 3,840,857	\$ 190,805
Penalties	1,205,067		5,543	5,543	-
Discoveries	78,136		(40,426)	(40,426)	-
Abatements	<u>(87,883)</u>		<u>35,943</u>	<u>35,943</u>	<u>-</u>
Total property valuation	<u>\$ 877,643,636</u>				
Net Levy			4,032,722	3,841,917	190,805
Uncollected taxes at June 30, 2020			<u>96,578</u>	<u>96,578</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 3,936,144</u>	<u>\$ 3,745,339</u>	<u>\$ 190,805</u>
Current Levy Collection Percentage			<u>97.61%</u>	<u>97.49%</u>	<u>100.00%</u>
Prior Year Levy Collection Percentage			<u>97.41%</u>	<u>97.27%</u>	<u>100.00%</u>

MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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*

Independent Auditor's Report

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

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Beaufort, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Beaufort's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
January 22, 2021

TOWN OF BEAUFORT, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2020

1. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on
whether the financial statements audited
were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

No

None reported

Non-compliance material to financial
statements noted?

No

2. Financial Statement Findings

None reported.

TOWN OF BEAUFORT, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2020**

None reported.