

TOWN OF DOBSON
NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2012

TOWN OF DOBSON
NORTH CAROLINA

TOWN COUNCIL MEMBERS

Ricky K. Draughn, Mayor
J. Wayne Atkins
Lana W. Brendle
Todd C. Dockery
John D. Lawson
Robin D. Testerman

OFFICIALS

Josh C. Smith
Tom C. Hart
Ricky K. Draughn
Hugh B. Campbell

Town Manager
Asst. Town Manager/Finance Officer
Fire Chief
Attorney

TOWN OF DOBSON
NORTH CAROLINA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining funds information of the Town of Dobson, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Dobson's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Town of Dobson ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Dobson ABC Board, is based solely on the reports of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Town of Dobson ABC Board were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012, on our consideration of the Town of Dobson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Dobson's financial statements as a whole. The introductory information, combining and individual non-major fund financial statements budgetary schedules, other schedules, are not a required part of the financial statements. The combining and individual non-major fund financial statements budgetary schedules, other schedules and the accompanying schedule of expenditures of federal and State awards 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. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The introductory information has not been subjected to the auditing procedures applied by us in the audit of basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.


Certified Public Accountant

October 23, 2012

Management's Discussion and Analysis

As management of the Town of Dobson, we offer readers of the Town of Dobson's financial statements this narrative overview and analysis of the financial activities of the Town of Dobson for the fiscal year ended June 30, 2012. 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

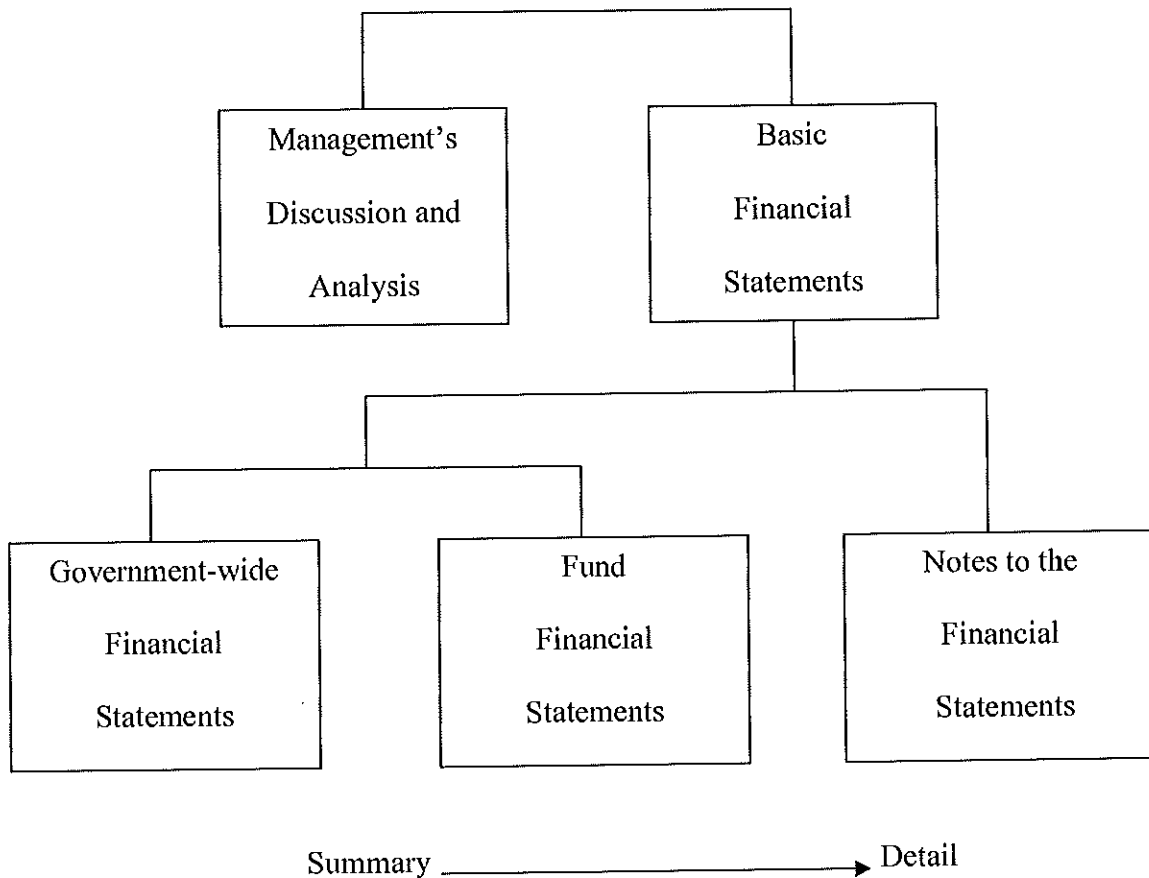
- The assets of the Town of Dobson exceeded its liabilities at the close of the fiscal year by \$6,834,573 (*net assets*).
- The government's total net assets *increased* by \$76,487, primarily due to the reduction in expenditure in the General Fund as compared to the prior year.
- As of the close of the current fiscal year, the Town of Dobson's governmental funds reported combined ending fund balances of \$1,335,551 an increase of \$138,894 in comparison with the prior year. Approximately 87 percent of this total amount, or \$1,155,737, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, *unassigned* fund balance for the General Fund was \$1,155,737 or 100.4 percent of total general fund expenditures for the fiscal year.
- Debt for the Town decreased by \$11,368 in this fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Dobson'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 Dobson.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, 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 Dobson. The final category is the component units. Although legally separate from the Town, the ABC Board is an important part of the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town. The Town exercises no control over the Tourism Authority's board.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Dobson, 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 of Dobson can be divided into two categories: governmental funds and proprietary funds.

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

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

Proprietary Funds – Town of Dobson has one proprietary fund. *Enterprise Fund* is used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Dobson uses enterprise funds to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28-58 of this report.

Government-Wide Financial Analysis

The Town of Dobson's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 1,370,659	\$ 1,259,946	\$ 903,013	\$ 813,295	\$ 2,273,672	\$ 2,073,241
Capital assets	1,146,957	1,189,004	5,556,840	5,650,104	6,703,797	6,839,108
Total assets	2,517,616	2,448,950	6,459,853	6,463,399	8,977,469	8,912,349
Long-term liabilities outstanding	407,965	359,642	1,631,216	1,674,212	2,039,181	2,033,854
Other liabilities	17,468	44,470	86,247	75,940	103,715	120,410
Total liabilities	425,433	404,112	1,717,463	1,750,152	2,142,896	2,154,264
Net assets:						
Invested in capital assets, net of related debt	903,608	924,043	4,034,472	4,035,266	4,938,080	4,959,309
Restricted	179,814	149,462			179,814	149,462
Unrestricted	1,008,761	971,333	707,918	677,981	1,716,679	1,649,314
Total net assets	\$ 2,092,183	\$ 2,044,838	\$ 4,742,390	\$ 4,713,248	\$ 6,834,573	\$ 6,758,086

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Dobson exceeded liabilities by \$6,834,573 as of June 30, 2012. The Town net assets increased by \$76,487 for the fiscal year ended June 30, 2012. However, the largest portion (72%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Dobson uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Dobson's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Dobson's net assets \$179,814 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,716,679 (25%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.00%, which is comparable to the statewide average of 97.07%.
- Capital contribution for capital outlay projects amounted to \$162,808.
- Water/Sewer fees increased from prior year.

Town of Dobson Changes in Net Assets
Figure 3

	Governmental		Business-type		Total	Total
	Activities	Activities	Activities	Activities		
	2012	2011	2012	2011		
Revenues:						
Program revenues:						
Charges for services	\$ 19,293	\$ 21,324	\$ 1,024,473	\$ 909,950	\$ 1,043,766	\$ 931,274
Operating grants and contributions	200,848	231,154	245,609	324,193	446,457	555,347
Capital grants and contributions			20,225	754,740		
General revenues:						
Property taxes	488,990	485,015			488,990	485,015
Other taxes	10,871	1,460			10,871	1,460
Grants and contributions not restricted to specific programs	514,685	466,461			514,685	466,461
Other	30,994	36,643	21,733	23,094	52,727	59,737
Total revenues	1,265,681	1,242,057	1,312,040	2,011,977	2,557,496	2,499,294
Expenses:						
General government	342,759	284,485			342,759	284,485
Public safety	526,375	586,146			526,375	586,146
Transportation	117,712	178,383			117,712	178,383
Environmental Protection	81,835	86,782			81,835	86,782
Economic development	99,742	102,390			99,742	102,390
Culture and recreation	39,035	32,155			39,035	32,155
Interest on long-term debt	10,878	11,728			10,878	11,728
Water and sewer			1,282,899	1,111,656	1,282,899	1,111,656
Total expenses	1,218,336	1,282,069	1,282,899	1,111,656	2,501,235	2,393,725
Increase in net assets before transfers	47,345	(40,012)	29,142	900,321	76,487	860,309
Transfers						
Increase in net assets	47,345	(40,012)	29,142	900,322	76,487	860,310
Net assets, July 1	2,044,838	2,084,850	4,713,248	3,812,926	6,758,086	5,897,776
Net assets, June 30	\$ 2,092,183	\$ 2,044,838	\$ 4,742,390	\$ 4,713,248	\$ 6,834,573	\$ 6,758,086

Governmental activities. Governmental activities increased the Town's net assets by \$47,345 thereby accounting for (62 %) of the total growth in the net assets of the Town of Dobson. Key elements of this increase are as follows:

- Property taxes remained constant.
- Cost declined during the fiscal year.

Business-type activities: Business-type activities increased the Town of Dobson's net assets by \$29,142, accounting for 38% of the total increase in the government's net assets. Key elements of this increase are as follows:

- Charges for water/sewer were up.
- Overall operating expenses were up
- Increase in depreciation due to asset purchases.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Dobson's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Dobson's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Dobson. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,155,737, while total fund balance reached \$1,335,551. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 87 percent of total General Fund expenditures.

At June 30, 2012, the governmental funds of Town of Dobson reported a combined fund balance of \$1,335,551, a 12 percent increase over last year. Included in this change in fund balance are increases in fund balance in the General Fund.

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

Expenditures were higher than budgeted primarily due to capital equipment purchases and improvements. Revenues also exceeded projections allowing for budget amendments that covered realized expenditures without any fund balance appropriation.

Proprietary Funds. The Town of Dobson's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer District at the end of the fiscal year amounted to \$707,918. The total increase in net assets for the fund was \$29,142. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Dobson's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Dobson's investment in capital assets for its governmental and business-type activities as of June 30, 2012, totals \$6,703,797 (net of accumulated depreciation). These assets include buildings, roads, land, machinery, equipment, vehicles, and construction in progress.

Town of Dobson's Capital Assets

Figure 4

(net of depreciation)

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total 2012	Total 2011
Land	\$ 35,000	\$ 35,000	\$ 29,269	\$ 29,269	\$ 64,269	\$ 64,269
Buildings and systems	609,548	627,237	3,376,715	3,496,022	3,986,263	4,123,259
Improvements other than buildings						
Machinery and equipment	111,495	79,211	402,589	405,930	514,084	485,141
Infrastructure						
Vehicles and motorized equipment	390,913	447,555	102,377	93,218	493,290	540,773
Construction in progress			1,645,891	1,625,666	1,645,891	1,625,666
Total	\$ 1,146,957	\$ 1,189,004	\$ 5,556,840	\$ 5,650,105	\$ 6,703,797	\$ 6,839,108

Additional information on the town's capital assets can be found in note III. A. 3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2012, the Town of Dobson had total bonded debt outstanding of \$358,530. Of this, \$1,321,849 is debt backed by the full faith and credit of the town. The remainder of the town's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds).

**Town of Dobson's Outstanding Debt
General Obligation and Revenue Bonds**

Figure 5

	Governmental Activities 2012	Governmental Activities 2011	Business-type Activities 2012	Business-type Activities 2011	Total 2012	Total 2011
General obligation bonds	\$ -	\$ -	\$ 197,500	\$ 209,000	\$ 197,500	\$ 209,000
Notes Payable	246,349	264,961	1,163,838	1,204,550	1,410,187	1,469,511
Revenue bonds	-	-	161,030	201,288	161,030	201,288
Total	\$ 246,349	\$ 264,961	\$ 1,522,368	\$ 1,614,838	\$ 1,768,717	\$ 1,879,799

The Town of Dobson's total debt decreased by \$111,082 during the past fiscal year.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Dobson is \$10,278,495.

Additional information regarding the Town of Dobson's long-term debt can be found in note III. B. 4 beginning on page 52-57 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the town.

- The Town continues to sell more water to Surry County, which increases utility revenues.
- The Town is working towards developing a Town park which will increase the quality of life for residents. Since there is a strong relationship between quality of life and economic development the Town expects this project to have a positive impact on economic development efforts.
- Several new businesses have located in town including an Italian restaurant, Sheetz, and several sole proprietorships that have redeveloped vacant commercial space.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities: Property tax collection rate should remain steady at 98% with a slight growth in revenues due to several newly developed and redeveloped properties in town.

The Town continues to reduce budget expenditures through strict spending oversight and the adoption of policies intended to increase efficiencies.

Revenues are expected to increase due to several fee and penalty increases and through aggressive collection of various penalties and fees.

Business Activities: The Town agreements with Surry County to maintain County water lines provide the Town with 1.5 FTEs, approximately \$90,000 in capital costs, and several directly reimbursed expenses related to the County's water lines. This provides additional revenues and enables the Town to continue to offer competitive water rates to utility customers.

The Town has entered into an inter-local agreement with the city of Mount Airy for the purchase of treated water. The agreement guarantees Dobson the availability of 1.5 million gallons of water per day for the duration of the agreement. This increased capacity allows economic expansion without capital improvement costs related to the expansion of the Town's water treatment plant.

Water rates have been restructured and increased in the fiscal year ending June 30, 2013, to provide additional revenues and cover anticipated expenditures as a result of the agreement with the city of Mount Airy.

Requests for Information

This report is designed to provide an overview of the Town's 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 Mayor, Ricky K. Draughn or the Town Finance Officer, Laura Hill, Post Office Box 351, Dobson, NC 27017, (336) 356-8962 or email address at customerservice@dobson-nc.com.

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Town of Dobson Tourism Development Authority	Town of Dobson ABC Board
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 1,173,205	\$ 657,796	\$ 1,831,001	\$ 159,550	\$ 123,811
Taxes receivables (net)	15,622	-	15,622	-	-
Accrued interest receivable on taxes	2,018	-	2,018	-	-
Accounts receivable (net)	11,302	92,751	104,053	11,302	154
Due from other governments	64,563	73,320	137,883	-	-
Due from component units	7,885	-	7,885	-	-
Inventories	-	42,047	42,047	-	63,766
Prepaid items	-	-	-	-	6,371
Restricted cash and cash equivalents	96,064	37,099	133,163	-	-
Total current assets	\$ 1,370,659	\$ 903,013	\$ 2,273,672	\$ 170,852	\$ 194,102
Non-current assets:					
Capital assets (Note 1):					
Land, non-depreciable improvements, and construction in progress	\$ 35,000	\$ 1,675,160	\$ 1,710,160	\$ -	\$ 4,500
Other capital assets, net of depreciation	1,111,957	3,881,680	4,993,637	-	16,096
Total capital assets	\$ 1,146,957	\$ 5,556,840	\$ 6,703,797	\$ -	\$ 20,596
Total non-current assets	\$ 1,146,957	\$ 5,556,840	\$ 6,703,797	\$ -	\$ 20,596
Total assets	\$ 2,517,616	\$ 6,459,853	\$ 8,977,469	\$ 170,852	\$ 214,697
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 17,468	\$ 49,148	\$ 66,616	\$ 4,093	\$ 54,165
Accrued interest payable	-	-	-	-	-
Customer deposits	-	37,099	37,099	-	-
Due to primary government	-	-	-	-	-
Due to other governments	-	-	-	-	-
Payable from restricted assets	-	-	-	-	-
Long-term liabilities:					
Due within one year	22,497	93,470	115,967	-	-
Due in more than one year	385,468	1,537,746	1,923,214	-	-
Total liabilities	\$ 425,433	\$ 1,717,463	\$ 2,142,896	\$ 4,093	\$ 54,165
NET ASSETS					
Invested in capital assets, net of related debt	\$ 903,608	\$ 4,034,472	\$ 4,938,080	\$ -	\$ 20,596
Restricted for:					
Capital projects	-	-	-	-	-
Stabilization by State Statute	83,750	-	83,750	11,302	-
Streets	96,064	-	96,064	-	-
Other Functions	-	-	-	-	15,301
Unrestricted	1,008,761	707,918	1,716,679	155,457	124,636
Total net assets	\$ 2,092,183	\$ 4,742,390	\$ 6,834,573	\$ 166,759	\$ 160,532

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 342,759	\$ 4,340	\$ -	\$ -
Public safety	526,375	2,408	42,663	-
Transportation	117,712	-	47,141	-
Economic and physical development	99,742	2,345	111,044	-
Environmental protection	81,835	-	-	-
Cultural and recreation	39,035	10,200	-	-
Interest on long-term debt	10,878	-	-	-
Total governmental activities (See Note 1)	<u>1,218,336</u>	<u>19,293</u>	<u>200,848</u>	<u>-</u>
Business-type activities:				
Water and sewer	\$ 1,282,899	\$ 1,024,473	\$ 245,609	\$ 20,225
Total business-type activities	<u>\$ 1,282,899</u>	<u>\$ 1,024,473</u>	<u>\$ 245,609</u>	<u>\$ 20,225</u>
Total primary government	<u>\$ 2,501,235</u>	<u>\$ 1,043,766</u>	<u>\$ 446,457</u>	<u>\$ 20,225</u>
Component units:				
Town of Dobson TDA	\$ 113,802	\$ -	\$ -	\$ -
ABC Board	521,846	520,488	-	-
Total component units	<u>\$ 635,648</u>	<u>\$ 520,488</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Taxes:

Property taxes, levied for general purpose
Other taxes

Grants and contributions not restricted to specific programs

Payments from Town of Dobson

Unrestricted investment earnings

Miscellaneous

Total general revenues not including transfers

Transfers

Total general revenues and transfers

Change in net assets

Net assets-beginning

Net assets-ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government				
Governmental Activities	Business-type Activities	Total	Town of Dobson Tourism Development Authority	Town of Dobson ABC Board
\$ (338,419)	\$ -	\$ (338,419)	\$ -	\$ -
(481,304)	-	(481,304)	-	-
(70,571)	-	(70,571)	-	-
13,647	-	13,647	-	-
(81,835)	-	(81,835)	-	-
(28,835)	-	(28,835)	-	-
(10,878)	-	(10,878)	-	-
<u>(998,195)</u>	<u>-</u>	<u>(998,195)</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 7,408</u>	<u>\$ 7,408</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 7,408</u>	<u>\$ 7,408</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (998,195)</u>	<u>\$ 7,408</u>	<u>\$ (990,787)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (113,802)	\$ -
-	-	-	-	(1,359)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(113,802)</u>	<u>(1,359)</u>
\$ 488,990	\$ -	\$ 488,990	\$ -	\$ -
10,871	-	10,871	-	-
514,685	-	514,685	-	-
-	-	-	111,044	-
4,679	1,406	6,085	81	437
26,315	20,327	46,642	-	-
<u>1,045,540</u>	<u>21,733</u>	<u>1,067,273</u>	<u>111,125</u>	<u>437</u>
<u>\$ 1,045,540</u>	<u>\$ 21,733</u>	<u>\$ 1,067,273</u>	<u>\$ 111,125</u>	<u>\$ 437</u>
\$ 47,345	\$ 29,142	\$ 76,487	\$ (2,677)	\$ (922)
2,044,838	4,713,248	6,758,086	169,436	161,454
<u>\$ 2,092,183</u>	<u>\$ 4,742,390</u>	<u>\$ 6,834,573</u>	<u>\$ 166,759</u>	<u>\$ 160,532</u>

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

TOWN OF DOBSON, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>Major Funds</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>
		<u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 1,173,205	\$ 1,173,205
Restricted cash	96,064	96,064
Receivables, net:		
Taxes	15,622	15,622
Accounts	11,302	11,302
Due from other governments	64,563	64,563
Due from component unit	7,885	7,885
Total assets	<u>\$ 1,368,641</u>	<u>\$ 1,368,641</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 17,468	\$ 17,468
Due to other funds	-	-
Deferred revenue	15,622	15,622
Unearned revenue	-	-
Total liabilities	<u>\$ 33,090</u>	<u>\$ 33,090</u>
Fund balances:		
Restricted:		
Stabilization by State Statute	\$ 83,750	\$ 83,750
Streets	96,064	96,064
Unassigned	1,155,737	1,155,737
Total fund balances	<u>\$ 1,335,551</u>	<u>\$ 1,335,551</u>
Total liabilities and fund balances	<u>\$ 1,368,641</u>	<u>\$ 1,368,641</u>
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:		
Total Fund Balance, Governmental Funds		\$ 1,335,551
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 2,132,860	
Accumulated depreciation	<u>(985,903)</u>	1,146,957
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		2,018
Liabilities for earned but deferred revenues in fund statements.		15,622
Some long term liabilities, including bonds payable, accrued interest, and other postemployment benefits are not due and payable in the current period and therefore are not reported in the funds.		<u>(407,965)</u>
Net assets of governmental activities		<u>\$ 2,092,183</u>

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Major Funds</u>	
	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Ad valorem taxes	\$ 490,169	\$ 490,169
Other taxes and licenses	10,871	10,871
Unrestricted intergovernmental	514,685	514,685
Restricted intergovernmental	200,738	200,738
Investment earnings	4,789	4,789
Miscellaneous	45,605	45,605
Total revenues	<u>\$ 1,266,857</u>	<u>\$ 1,266,857</u>
EXPENDITURES		
Current:		
General government	\$ 312,898	\$ 312,898
Public safety	461,037	461,037
Transportation	105,926	105,926
Environmental protection	81,835	81,835
Culture and recreation	34,035	34,035
Payments to Dobson Tourism Authority	99,742	99,742
Debt service:		
Principal	21,612	21,612
Interest and other charges	10,878	10,878
Total expenditures	<u>\$ 1,127,963</u>	<u>\$ 1,127,963</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 138,894</u>	<u>\$ 138,894</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds	\$ -	\$ -
Transfers to other funds	-	-
Capital Contributions	-	-
Sales of capital assets	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balance	\$ 138,894	\$ 138,894
Fund balances-beginning	1,196,657	1,196,657
Fund balances-ending	<u>\$ 1,335,551</u>	<u>\$ 1,335,551</u>

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

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

Net changes in fund balances - total governmental funds	\$ 138,894
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 60,379	
Depreciation expense for governmental assets	<u>(102,429)</u>	(42,050)

In the statement of activities, only the gain or loss on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets disposed of.

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Amount of donated assets	
Change in deferred revenue for tax revenues	(1,176)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

21,612

Decrease in accrued interest payable

-

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	
Net pension obligation	
Other postemployment benefits	<u>(69,935)</u>

Total changes in net assets of governmental activities	<u>\$ 47,345</u>
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The notes to the financial statements are an integral part of this statement.

**TOWN OF DOBSON
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - ANNUAL BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad Valorem Taxes	\$ 487,750.00	\$ 487,750.00	\$ 490,168.84	\$ 2,418.84
Other Taxes and Licenses	1,550.00	1,550.00	10,870.50	9,320.50
Unrestricted Intergovernmental	451,900.00	477,900.00	514,685.21	36,785.21
Restricted Intergovernmental	278,150.00	201,100.00	200,738.01	(361.99)
Investment Earnings	12,700.00	12,650.00	4,789.03	(7,860.97)
Miscellaneous	52,148.00	52,148.00	45,605.08	(6,542.92)
Total Revenues	\$ 1,284,198.00	\$ 1,233,098.00	\$ 1,266,856.67	\$ 33,758.67
Expenditures:				
Current:				
General Government	\$ 289,898.00	\$ 314,398.00	\$ 312,897.91	\$ 1,500.09
Public Safety	479,900.00	504,900.00	461,037.10	43,862.90
Transportation	337,400.00	140,300.00	105,926.07	34,373.93
Environmental Protection	95,000.00	95,000.00	81,834.71	13,165.29
Cultural and Recreation	33,000.00	35,500.00	34,035.41	1,464.59
Payment to Dobson Tourism Authority	95,000.00	110,000.00	99,741.82	10,258.18
Debt Service:				
Debt Service Principal	34,000.00	26,500.00	21,611.99	4,888.01
Debt Service Interest		6,500.00	10,877.80	(4,377.80)
Total Expenditures	\$ 1,364,198.00	\$ 1,233,098.00	\$ 1,127,962.81	\$ 105,135.19
Revenues Over (Under) Expenditures	\$ (80,000.00)	\$	\$ 138,893.86	\$ 138,893.86
Other Financing Sources (Uses):				
Transfers to Water/Sewer Fund	\$	\$	\$	\$
Sale of Capital Assets				
Total Other Financing Sources (Uses)	\$	\$	\$	\$
Fund Balance Appropriated	80,000.00			
Net Change in Fund Balance			\$ 138,893.86	138,893.86
Fund Balance, Beginning			1,196,657.09	
Fund Balance, Ending			\$ 1,335,550.95	

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise Fund	
	Water and Sewer Fund	Total
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 657,795.88	\$ 657,795.88
Accounts receivable (net)-billed	92,750.74	92,750.74
Due from other governments	73,320.00	73,320.00
Inventories	42,047.46	42,047.46
Restricted Cash and Cash Equivalents	\$ 37,099.13	\$ 37,099.13
Total Current Assets	\$ 903,013.21	\$ 903,013.21
Capital Assets:		
Land, construction in progress and other non-depreciable assets	\$ 1,675,159.96	\$ 1,675,159.96
Other capital assets, net of depreciation	3,881,679.60	3,881,679.60
Capital asset (net)	5,556,839.56	5,556,839.56
Total noncurrent assets	5,556,839.56	5,556,839.56
Total Assets	\$ 6,459,852.77	\$ 6,459,852.77

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Enterprise Fund	
	Water and Sewer Fund	Total
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 49,148.14	\$ 49,148.14
Customer Deposits	37,099.13	37,099.13
General Obligation Bonds Payable-Current	12,500.00	12,500.00
Notes Payable-Current	80,970.10	80,970.10
Total Current Liabilities	\$ 179,717.37	\$ 179,717.37
Noncurrent Liabilities:		
General Obligation Bonds Payable-Noncurrent (net)	\$ 185,000.00	\$ 185,000.00
Note Payable-Noncurrent	1,243,897.80	1,243,897.80
Other Post Employment Benefits.	108,848.00	108,848.00
Total Noncurrent Liabilities	\$ 1,537,745.80	\$ 1,537,745.80
Total Liabilities	\$ 1,717,463.17	\$ 1,717,463.17
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	\$ 4,034,471.66	\$ 4,034,471.66
Unrestricted	707,917.94	707,917.94
Total Net Assets	\$ 4,742,389.60	\$ 4,742,389.60
Net Assets of Business-type activities		\$ 4,742,389.60

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Fund	
	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for Services	\$ 1,168,749.44	\$ 1,168,749.44
Water and Sewer Taps	4,050.00	4,050.00
Other Operating Revenues	97,282.44	97,282.44
Total Operating Revenues	\$ 1,270,081.88	\$ 1,270,081.88
OPERATING EXPENSES		
Total Operating Expenses	\$ 1,013,439.96	\$ 1,013,439.96
Depreciation	220,557.92	220,557.92
Total Operating Expenses	\$ 1,233,997.88	\$ 1,233,997.88
Operating Income (loss)	\$ 36,084.00	\$ 36,084.00
NON-OPERATING REVENUES (EXPENSES)		
Investment Earnings	\$ 1,406.22	\$ 1,406.22
Tax Refunds	20,327.19	20,327.19
Interest Fees on Long-Term Debt	(48,900.95)	(48,900.95)
Total Non-operating Revenues (Expenses)	\$ (27,167.54)	\$ (27,167.54)
Income (Loss) Before Contributions and Transfers	\$ 8,916.46	\$ 8,916.46
Capital Contributions	20,225.35	20,225.35
Transfers from General Fund		
Change in Net Assets	\$ 29,141.81	\$ 29,141.81
Total Net Assets, Beginning	4,713,247.79	4,713,247.79
Total Net Assets, Ending	\$ 4,742,389.60	\$ 4,742,389.60

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

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds	
	Water and Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 1,174,675.64	\$ 1,174,675.64
Cash Paid for Goods and Services	(552,503.38)	(552,503.38)
Cash Paid to or on Behalf of Employees for Services	(454,653.66)	(454,653.66)
Customer Deposits Received	5,775.93	5,775.93
Customer Deposits Returned	(8,428.05)	(8,428.05)
Other Operating Revenues	97,282.44	97,282.44
Net Cash Provided (Used) by Operating Activities	\$ 262,148.92	\$ 262,148.92
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from Other Funds	\$	\$
Transfers to Other Funds		
Due from other governments	14,120.00	14,120.00
Total Cash Flows from Noncapital Financing Activities	\$ 14,120.00	\$ 14,120.00
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	\$ (127,293.11)	\$ (127,293.11)
Proceeds from Capital Debt		
Principal Paid on Bond Maturities and Notes	(92,470.10)	(92,470.10)
Interest Paid on Bond Maturities and Notes	(48,900.95)	(48,900.95)
Capital Contributions	20,225.35	20,225.35
Tax Refunds	5,370.20	5,370.20
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (243,068.61)	\$ (243,068.61)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	\$ 1,406.22	\$ 1,406.22
Sale of Property & Equipment		
Total Cash Flows from Investing Activities	\$ 1,406.22	\$ 1,406.22
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 34,606.53	\$ 34,606.53
Balance, Beginning of the Year	660,288.48	660,288.48
Balance, End of the Year	\$ 694,895.01	\$ 694,895.01

TOWN OF DOBSON, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-Type Activities Enterprise Funds	
	Water and Sewer Fund	Totals
Reconciliation of Operating Income to Net		
Cash Provided (Used) by Operating Activities	\$ 36,084.00	\$ 36,084.00
Operating Income		
Adjustments to Reconcile Operating Income to		
Net Cash Provided (Used) by Operating Activities	\$ 220,557.92	\$ 220,557.92
Depreciation		
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	1,876.20	1,876.20
(Increase) Decrease in Inventories	(3,487.17)	(3,487.17)
(Increase) Decrease in Prepaid Items		
(Increase) Decrease in due from other governments	(53,500.50)	(53,500.50)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	63,270.59	63,270.59
(Increase) Decrease in amounts payable related to equipment purchases		
Increase (Decrease) in due to other governments		
Increase (Decrease) in Customer Deposits	(2,652.12)	(2,652.12)
Total Adjustments	\$ 226,064.92	\$ 226,064.92
Net Cash Provided (Used) by Operating Activities	\$ 262,148.92	\$ 262,148.92

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Dobson, North Carolina, and its discretely presented component unit 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 Dobson, North Carolina is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Dobson ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office at Town of Dobson ABC Board, P.O. Box 825, Dobson, North Carolina 27017.

Town of Dobson Tourism Development Authority

The members of the Town of Dobson Tourism Development Authority's (Authority) governing board are appointed by the Town. The Authority receives revenue through a six percent occupancy tax, which is levied and collected by the Town of Dobson. The Town remits the taxes collected to the Authority. The Authority, which has a June 30 year-end, is presented as if it were a governmental fund. Additional information should be directed to Town of Dobson Tourism Development Authority, P.O. Box 351, Dobson, NC 27017.

B. BASIS OF PRESENTATION

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government and its component unit. 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.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Continued)

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental 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. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF PRESENTATION (Concluded)

The Town reports the following major enterprise funds:

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

In accordance with North Carolina 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. Nonexchange 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.

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 nonoperating 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 fund is charges to customers for sales and service. 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 nonoperating revenues and expenses.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

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 revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Surry County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Dobson.

For motor vehicles registered under the staggered system and for vehicles newly registered under the annual system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Surry County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes, which were billed during this period, are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2012, because they are intended to finance the Town's operations during the 2012 fiscal year.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Concluded)

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues, which are unearned at year-end, are recorded as unearned revenues.

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

D. BUDGETARY DATA

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Water and Sewer Capital Project Funds. 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 object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. A budget calendar is included in the North Carolina General Statutes, which prescribes the last day on which certain steps of that budget procedure are to be performed. The following schedule lists the tasks to be performed and the date by which each is required to be completed:

- | | |
|------------|--|
| April 30 - | Each department head will transmit to the budget officer the budget requests and the revenue estimates for their department for the budget year. |
| June 1 - | The budget and the budget message shall be submitted to the governing board. The public hearing on the budget shall be scheduled at this time. |
| July 1 - | The budget ordinance shall be adopted by the governing board. |

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND FUND EQUITY

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board 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, Tourism Authority, and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized costs. Non-participating interest earnings and investment contracts are reported at cost.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursements and investments and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board and the Tourism Authority considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND FUND EQUITY (Continued)

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 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, 2010. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.

6. Inventories and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased. The ABC Board's inventory consists of merchandise for resale. The costs of these inventories are recorded as an expense as the inventories are sold.

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.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND FUND EQUITY (Continued)

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are set at \$2,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Infrastructure	30 years
Plant and distribution systems	40 years
Equipment	3 to 10 years
Furniture and maintenance equipment	3 to 20 years
Vehicles	3 to 20 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	40 years
Paving	5 to 10 years
Furniture and Equipment	5 to 20 years

Property, plant, and equipment of the Town of Dobson Tourism Development Authority are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Equipment	3 to 10 years
Furniture and Maintenance Equipment	3 to 10 years
Vehicles	3 to 10 years

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND FUND EQUITY (Continued)

8. Long-Term Obligations

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

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

9. Compensated Absences

The vacation policies of the Town do not provide for the accumulation or vesting of vacation leave. Therefore, no provision has been made in the accompanying financial statements for accrued vacation pay. The ABC Board employees may accumulate up to thirty (30) days earned vacation leave with such leave being fully vested when earned. Accumulated earned vacation at June 30, 2012 amounted to approximately \$4,800, which was accrued at year-end.

The Town's sick leave policy provides for an accumulation of up to 180 days of earned sick leave. The ABC Board employees can accumulate an unlimited amount of 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 and ABC Board have no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ASSETS, LIABILITIES, AND FUND EQUITY (Continued)

10. Net Assets/Fund Balances

Net Assets

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

Fund Balances

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

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

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

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

Committed Fund Balance –portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Dobson's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned fund balance – portion of fund balance that Town of Dobson intends to use for specific purposes.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

E. ASSETS, LIABILITIES, AND FUND EQUITY (Concluded)

10. Net Assets/Fund Balances (Concluded)

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditure made in the Town's Water and Sewer Fund exceeded the authorized appropriations made by the governing board for capital outlay by \$39,068. Management has been notified of these excess expenditures and will closely monitor their budget process in the future.

III. DETAIL NOTES OF ALL FUNDS

A. ASSETS

1. Deposits

All of the deposits of the Town, the ABC Board, and the Town of Dobson Tourism Development Authority are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal depository insurance coverage level are collateralized with securities held by the Town's, the ABC Board's, or the Authority's agents in these units' name. Under the Pooling 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, the ABC Board and the Authority, these deposits are considered to be held by the Town's, the ABC Board's and the Authority'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, the ABC Board, and the Authority or the escrow agent.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

A. ASSETS (Continued)

1. Deposits (Concluded)

Because of the inability to measure the exact amounts of collateral pledged for the Town, the ABC Board, and the Authority under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town, the ABC Board, and the Tourism Authority have no 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, ABC Board and Tourism Authority complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2012, the Town's deposits had a carrying amount of \$1,964,164 and a bank balance of \$2,008,779. Of the bank balance, \$250,000.00 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board's was \$123,111 and a bank balance of \$119,459. Of the bank balance, \$119,459 was covered by Federal depository insurance. The carrying amount of deposits for the Authority's was \$159,550 and a bank balance of \$160,050. Of the bank balance, \$160,050 was covered by Federal depository insurance. The Pooling Method is used for collateralization of the bank balance over the federal depository insurance limits. At June 30, 2012, the Town's petty cash fund totaled \$150.

2. Receivables - Allowances for Doubtful Accounts

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

<u>Fund</u>	<u>June 30, 2012</u>
General Fund:	
Taxes Receivable	<u>\$ 7,429</u>
Total	<u>\$ 7,429</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

A. ASSETS (Continued)

3. Capital Assets

Primary Government

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

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 35,000	\$	\$	\$ 35,000
Construction in progress	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets not being depreciated	<u>\$ 35,000</u>	<u>\$</u>	<u>\$</u>	<u>\$ 35,000</u>
Capital assets being depreciated:				
Buildings	\$ 834,523	\$	\$	\$ 834,523
Other improvements	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Equipment	304,370	60,379	<u> </u>	364,749
Vehicles	898,586	<u> </u>	<u> </u>	898,586
Infrastructure	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets being depreciated	<u>\$ 2,037,479</u>	<u>\$ 60,379</u>	<u>\$</u>	<u>\$ 2,097,858</u>
Less accumulated depreciation for:				
Buildings	\$ 207,286	\$ 17,690	\$	\$ 224,975
Other improvements	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Equipment	225,159	28,096	<u> </u>	253,254
Vehicles	451,031	56,643	<u> </u>	507,672
Infrastructure	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	<u>\$ 883,475</u>	<u>\$ 102,429</u>	<u>\$</u>	<u>\$ 985,901</u>
Total capital assets being depreciated, net	<u>1,154,004</u>	<u> </u>	<u> </u>	<u>1,111,957</u>
Governmental activity capital assets, net	<u>\$ 1,189,004</u>	<u> </u>	<u> </u>	<u>\$ 1,146,957</u>

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

General government	\$ 11,549
Public safety	79,094
Transportation	<u>11,786</u>
Total depreciation expense	<u>\$ 102,429</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

A. ASSETS (Concluded)

3. Capital Assets (Concluded)

Business-type activities:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 29,269	\$	\$	\$ 29,269
Construction in progress	<u>1,625,666</u>	<u>20,225</u>	<u></u>	<u>1,645,891</u>
Total capital assets not being depreciated	<u>\$ 1,654,935</u>	<u>\$ 20,225</u>	<u>\$</u>	<u>\$ 1,675,160</u>
Capital assets being depreciated:				
Plant and distribution systems	\$ 5,829,226	\$ 56,486	\$	\$ 5,885,712
Furniture and maintenance equipment	909,380	24,082	<u></u>	933,462
Vehicles	<u>159,633</u>	<u>26,500</u>	<u></u>	<u>186,133</u>
Total capital assets being depreciated	<u>\$ 6,898,239</u>	<u>\$ 107,068</u>	<u>\$</u>	<u>\$ 7,005,307</u>
Less accumulated depreciation for:				
Plant and distribution systems	\$ 2,333,204	\$ 175,794	\$	\$ 2,508,998
Furniture and maintenance equipment	503,450	27,423	<u></u>	530,873
Vehicles	<u>66,415</u>	<u>17,341</u>	<u></u>	<u>83,756</u>
Total accumulated depreciation	<u>\$ 2,903,069</u>	<u>\$ 220,558</u>	<u>\$</u>	<u>\$ 3,123,627</u>
Total capital assets being depreciated, net	<u>3,995,170</u>	<u></u>	<u></u>	<u>3,881,680</u>
Water and Sewer fund capital assets, net	<u>5,650,104</u>	<u></u>	<u></u>	<u>5,556,840</u>
Business-type activities capital assets, net	<u>\$ 5,650,104</u>	<u></u>	<u></u>	<u>\$ 5,556,840</u>

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 4,500	\$	\$	\$ 4,500
Total capital assets not being depreciated	<u>4,500</u>	<u></u>	<u></u>	<u>4,500</u>
Capital assets being depreciated:				
Buildings	\$ 42,431	\$	\$	\$ 42,431
Paving	12,768	<u></u>	<u></u>	12,768
Equipment	<u>62,482</u>	<u></u>	<u></u>	<u>62,482</u>
Total capital assets being depreciated	<u>\$ 117,681</u>	<u>\$</u>	<u>\$</u>	<u>\$ 117,681</u>
Less accumulated depreciation for:				
Buildings	\$ 40,873	\$ 1,084	\$	\$ 41,957
Paving	1,277	638	<u></u>	1,915
Equipment	<u>53,755</u>	<u>3,958</u>	<u></u>	<u>57,713</u>
Total accumulated depreciation	<u>95,905</u>	<u>\$ 6,123</u>	<u>\$</u>	<u>101,585</u>
ABC capital assets, net	<u>\$ 21,776</u>	<u></u>	<u></u>	<u>\$ 16,096</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES

I. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.99% and 7.05%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 4.80% of annual covered payroll. The contribution requirements of members and of the Town of Dobson and of the ABC Board are established and may be amended by the North Carolina General Assembly. The Town's contributions to the LGERS for the years ended June 30, 2012, 2011 and 2010 were \$40,078 \$32,072 and \$20,334, respectively. The ABC Board's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$1,394, \$1,248 and \$1,398, respectively. The contributions made by the Town and the ABC Board equaled the required contributions for each year.

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

The Town of Dobson administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 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.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At June 30, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to benefits but not Yet receiving them	0
Active plan members	<u>6</u>
Total	<u>6</u>

A separate report was not issued for the plan.

2. *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 will be made from the General Fund, which is maintained on the modified accrual basis of accounting.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

b. Law Enforcement Officers' Special Separation Allowance (Concluded)

2. *Summary of Significant Accounting Policies (Concluded):*

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

3. *Contributions.*

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

The Town has chosen not to have an actuarial study performed because the liability is considered to be immaterial.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State 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.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012, were \$25,800, which consisted of \$13,386 from the Town and \$12,414 from the law enforcement officers.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

d. Firemen's and Rescue Squad Workers' Pension Fund

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

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

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

I. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits

Healthcare Benefits

Plan Description. The Town administers a single-employer defined Healthcare Benefits Plan (“the Retiree Health Plan”). The plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees’ Retirement System (System) and are at least 55 years of age with at least twenty years of creditable service with the Town. The retiree pays 35% and the Town pays 65% cost of coverage for these benefits. Also, the Town’s retirees can purchase coverage for their dependents at the Town’s group rates. The Town’s Board may amend the benefit provisions. A separate report was not issued for the plan.

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	1	0
Terminated plan members entitled to but not yet receiving benefits	0	0
Active plan members	<u>11</u>	<u>6</u>
Total	<u>12</u>	<u>6</u>

Funding Policy. The Town pays 65% and the retiree pays 35% of the cost of healthcare benefit coverage to qualified retirees and the plan can be amended by the Town’s Board. The Town members pay 35% of cost of insurance per month for dependent coverage. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. In fiscal year ended, June 30, 2012, the Town made no contributions and total member contributions were \$0.00.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits (Continued)

Healthcare Benefits (Continued)

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

Annual required contribution	\$ 117,604
Interest on net OPEB obligation	1,805
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	119,409
Contributions made	<u>0</u>
Increase (decrease) in net OPEB obligation	119,409
Net OPEB obligation, beginning of year	<u>154,055</u>
Net OPEB obligation, end of year	<u>\$ 273,464</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 119,409	0.0%	\$ 273,464
2011	\$ 111,251	0.0%	\$ 154,055
2010	\$ 42,804	0.0%	\$ 42,804

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits (Continued)

Healthcare Benefits (Continued)

Funding Status and Funding Progress. As of June 30, 2012, the actuarial accrued liability for benefits was \$811,542 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$647,823 and the ratio of the UAAL to the covered payroll was 125 percent.

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

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

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Continued)

e. Other Post-employment Benefits (Continued)

Healthcare Benefits (Concluded)

The following simplifying assumptions were made:

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

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

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

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

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was based on projections from the Town's private insurance carrier. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.0 percent after nine years, was used.

Health insurance premiums – 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate – The expected long-term inflation assumption of 4.0 percent.

Payroll growth rate – The expected long-term growth rate of 3.0 percent was assumed.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

1. Pension Plan and Postemployment Obligations (Concluded)

e. Other Post-employment Benefits (Concluded)

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental 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 service 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 \$50,000.00 or be less than \$25,000.00. All death benefit payments are made from the Death Benefit Plan.

The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the Town made contributions to the State for death benefits of \$691. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .11% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

2. Deferred/Unearned Revenues

The balance in deferred/unearned revenues at year-end is composed of the following elements:

	<u>Deferred Revenue</u>
Taxes receivable (General Fund)	<u>\$ 15,622</u>

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error 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 has worker's compensation coverage up to the statutory limit and employee health coverage up to a \$1,000,000 lifetime limit. The pools are reinsured for annual employee health claims in excess of \$150,000 Long-Term Debt.

The Town carries commercial insurance 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. The Town carries no flood insurance on the property or equipment. This is due to the areas around the Town are not susceptible to flooding.

In accordance with G.S. 159-29, the Town's employees that have access of \$100 or more at any given time are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000. All remaining employees are bonded under a blanket bond for \$10,000 each.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

4. Long-Term Obligations

a. Loan Agreements

In July 2007, the Town entered into a loan agreement for the purchase of a fire truck. The agreement requires annual payments of \$24,769 including interest until maturity in August 2018.

A summary of the annual requirements of the General Fund long-term debt outstanding follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 19,474	\$ 5,295	\$ 24,769
2014	20,270	4,499	24,769
2015	21,099	3,669	24,768
2016	21,962	2,806	24,768
2017-2018	<u>46,656</u>	<u>2,882</u>	<u>49,538</u>
	<u>\$ 129,461</u>	<u>\$ 19,151</u>	<u>\$ 148,612</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

4. Long-Term Obligations

a. Loan Agreements

In July 2007, the Town entered into a loan agreement for the purchase of a building for the Dobson Library. The agreement requires annual payments of \$7,721.00 including interest until maturity in August 2035.

A summary of the annual requirements of the General Fund long-term debt outstanding follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 3,023	\$ 4,698	\$ 7,721
2014	3,148	4,573	7,721
2015	3,278	4,443	7,721
2016	3,413	4,308	7,721
2017	3,554	4,167	7,721
2018-2022	20,092	18,513	38,605
2023-2027	24,592	14,013	38,605
2028-2032	30,100	8,505	38,605
2033-2035	<u>22,688</u>	<u>2,363</u>	<u>25,051</u>
	<u>\$ 113,888</u>	<u>\$ 65,583</u>	<u>\$ 179,471</u>

b. General Obligation Indebtedness

The Town's general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

4. Long-Term Obligations (Continued)

b. General Obligation Indebtedness (Continued)

Bonds and notes payable at June 30, 2012, are comprised of the following individual issues:

General Obligation Bonds:

Serviced by the Water and Sewer Fund:

\$350,000, 1989, Water Bonds, due in annual installments of from \$3,500 to \$14,000 through June 1, 2027; interest at 6%	\$ 197,500
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Notes Payable:

\$411,400, 2006, DENR Revolving Loan, due in annual installments of \$25,713 through May 1, 2023; interest at 2.27%	\$ 282,838
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\$911,000, 2010, USDA Water RBANS Loan, due in annual installments of from \$15,000 to \$34,000 through June 1, 2050; total interest of \$468,569	\$ 881,000
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\$805,152, 1995, State Bond Loan, due in annual installments of \$40,258 through May 1, 2016; interest at 5.85%	\$ 161,030
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\$ 1,522,368

The amount of interest expense on these bonds and notes totaled \$48,901 for 2012.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Concluded)

4. Long-Term Obligations (Continued)

b. General Obligation Indebtedness (Concluded)

A summary of the annual requirements to amortize all Water and Sewer long-term debt outstanding follows:

	<u>Note Payable</u>		<u>Obligation Bonds</u>		<u>Total Debt Due</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Water and Sewer						
2013	\$ 40,258	\$ 7,594	\$ 12,500	\$ 11,850	\$ 52,758	\$ 19,444
2014	40,258	5,259	13,000	11,100	53,258	16,359
2015	40,258	2,939	14,000	10,320	54,258	13,259
2016	40,256	553	14,000	9,480	54,256	10,033
2017			14,000	8,640	14,000	8,640
2018-2022			70,000	30,600	70,000	30,600
2023-2027			60,000	9,600	60,000	9,600
	<u>\$ 161,030</u>	<u>\$ 16,345</u>	<u>\$ 197,500</u>	<u>\$ 91,590</u>	<u>\$ 358,530</u>	<u>\$ 107,935</u>

c. DENR Revolving Loan

A summary of the Water/Sewer annual requirements of the DENR long-term debt outstanding follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 25,713	\$ 6,406	\$ 32,119
2014	25,713	5,824	31,537
2015	25,713	5,242	30,955
2016	25,713	4,659	30,372
2017	25,713	3,786	29,499
2018-2022	128,565	12,302	140,867
2023	<u>25,708</u>	<u>219</u>	<u>25,927</u>
	<u>\$ 282,838</u>	<u>\$ 38,438</u>	<u>\$ 321,276</u>

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Continued)

4. Long-Term Obligations (Continued)

d. USDA Water RBANS Loan

A summary of the Water/Sewer annual requirements of the USDA Water RBANS long-term debt outstanding follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 15,000	\$ 19,823	\$ 34,823
2014	15,000	19,485	34,485
2015	16,000	19,148	35,148
2016	16,000	18,788	34,788
2017	16,000	18,428	34,428
2018-2022	87,000	86,490	173,490
2023-2027	98,000	76,208	174,208
2028-2032	109,000	64,733	173,733
2033-2037	121,000	51,930	172,930
2038-2042	136,000	37,643	173,643
2043-2047	152,000	21,668	173,668
2048-2050	<u>100,000</u>	<u>4,519</u>	<u>104,519</u>
	<u>\$ 881,000</u>	<u>\$ 438,863</u>	<u>\$ 1,319,863</u>

At June 30, 2012, the Town had a legal debt margin of \$10,278,495.

TOWN OF DOBSON, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONTINUED)

III. DETAIL NOTES OF ALL FUNDS (Continued)

B. LIABILITIES (Concluded)

4. Long-Term Obligations (Concluded)

e. Changes in Long-Term Liabilities

Governmental activities:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Library building loan	\$ 116,791	\$ -	\$ 2,903	\$ 113,888	\$ 3,023
Fire truck loan	148,170	-	18,709	129,461	19,474
Other postemployment benefits	94,681	69,935	-	164,615	-
Governmental activity Long-term liabilities	<u>\$ 359,642</u>	<u>\$ 69,935</u>	<u>\$ 21,612</u>	<u>\$ 407,965</u>	<u>\$ 22,497</u>

Business-type activities:

General obligation bonds	\$ 209,000	\$ -	\$ 11,500	\$ 197,500	\$ 12,500
State bond loan	201,288	-	40,258	161,030	40,258
USDA RBANS loan	896,000	-	15,000	881,000	15,000
DENR Revolving loan	308,550	-	25,713	282,838	25,713
Other postemployment benefits	59,375	49,474	-	108,849	-
Business-type activity Long-term liabilities	<u>\$ 1,674,212</u>	<u>\$ 49,474</u>	<u>\$ 92,470</u>	<u>\$ 1,631,216</u>	<u>\$ 93,470</u>

TOWN OF DOBSON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012 (CONCLUDED)

III. DETAIL NOTES OF ALL FUNDS (Concluded)

C. FUND BALANCE

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

Total fund balance – General Fund	\$ 1,335,551
Less:	
Stabilization by State Statute	83,750
Streets-Powell Bill	<u>96,064</u>
Remaining Fund Balance	<u>\$ 1,155,737</u>

D. JOINTLY GOVERNED ORGANIZATION

The Town in conjunction with five (5) counties and twenty-one (21) other municipalities established the Northwest Piedmont Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board.

E. JOINT VENTURES

The Town of Dobson continues to sell water to the County of Surry at a rate of \$2.80 per 1,000 gallons. The Town has recently entered into an inter-local agreement with the City of Mount Airy for the purchase of treated water. Per the agreement, the Town must purchase a minimum of 6 million gallons per month at a rate of \$2.66 per 1,000 gallons.

F. 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.

TOWN OF DOBSON
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
06/30/12		811,542	811,542	0%	647,823	125%
06/30/11		733,858	733,858	0%	559,270	131%
06/30/10		352,241	352,241	0%	534,138	66%

TOWN OF DOBSON
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2012	119,409	0%
2011	111,251	0%
2010	42,804	0%

TOWN OF DOBSON, NORTH CAROLINA
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Taxes	\$ 485,750.00	\$ 487,256.93	\$ 1,506.93
Penalty & Interest on Tax	2,000.00	2,911.91	911.91
Total	\$ 487,750.00	\$ 490,168.84	\$ 2,418.84
Other Taxes and Licenses:			
Privilege License	\$ 1,550.00	\$ 10,870.50	\$ 9,320.50
Elderly Exemption Tax Loss			
Total	\$ 1,550.00	\$ 10,870.50	\$ 9,320.50
Unrestricted Intergovernmental:			
Local Option Sales Tax	\$ 348,000.00	\$ 371,220.50	\$ 23,220.50
Telecommunication Tax		12,284.00	12,284.00
Video Franchise Fee		9,911.33	9,911.33
Controlled Substance Tax		67.47	67.47
Franchise Taxes	113,000.00	98,946.02	(14,053.98)
Beer & Wine Taxes	6,500.00	6,880.36	380.36
NC Sales Tax Refund	6,000.00	7,072.88	1,072.88
Court Costs & Fees	1,200.00	1,994.51	794.51
ABC profit distribution	3,200.00	6,308.14	3,108.14
Total	\$ 477,900.00	\$ 514,685.21	\$ 36,785.21
Restricted Intergovernmental:			
Contribution From Powell Bill	\$ 47,000.00	\$ 47,031.20	\$ 31.20
Occupancy Taxes	110,000.00	111,043.52	1,043.52
Police Department Grant	25,000.00	23,901.69	(1,098.31)
Fire Department Grant	18,300.00	17,184.56	(1,115.44)
Town of Elkin Step Grant Contribution			
ABC revenue for law enforcement	800.00	1,577.04	777.04
Total	\$ 201,100.00	\$ 200,738.01	\$ (361.99)
Investment Earnings	\$ 12,650.00	\$ 4,789.03	\$ (7,860.97)
Miscellaneous:			
Cable Franchise	\$ 800.00	\$	\$ (800.00)
Miscellaneous	51,348.00	45,605.08	(5,742.92)
Total	\$ 52,148.00	\$ 45,605.08	\$ (6,542.92)
Total Revenues	\$ 1,233,098.00	\$ 1,266,856.67	\$ 33,758.67

TOWN OF DOBSON, NORTH CAROLINA
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General Government:			
Governing Body/Town Council			
Professional Services	\$ 46,000.00	\$ 51,143.15	\$ (5,143.15)
Other Operating Expenditures	15,000.00	13,245.23	1,754.77
Total	\$ 61,000.00	\$ 64,388.38	\$ (3,388.38)
Administration:			
Salaries and Employee Benefits	\$ 152,850.00	\$ 152,740.17	\$ 109.83
Professional Services	24,000.00	15,962.69	8,037.31
Other Operating Expenditures	76,548.00	79,806.67	(3,258.67)
Capital Outlay			
Total	\$ 253,398.00	\$ 248,509.53	\$ 4,888.47
Total General Government	\$ 314,398.00	\$ 312,897.91	\$ 1,500.09
Public Safety:			
Police Department:			
Salaries and Employee Benefits	\$ 314,900.00	\$ 299,742.39	\$ 15,157.61
Other Operating Expenditures	92,000.00	80,935.81	11,064.19
Capital Outlay			
Total	\$ 406,900.00	\$ 380,678.20	\$ 26,221.80
Fire Department:			
Salaries and Employee Benefits	\$ 14,250.00	\$ 15,901.62	\$ (1,651.62)
Other Operating Expenditures	78,750.00	23,963.12	54,786.88
Capital Outlay		35,494.16	(35,494.16)
Total	\$ 93,000.00	\$ 75,358.90	\$ 17,641.10
Rescue:			
Contribution to Rescue Squad	\$ 5,000.00	\$ 5,000.00	\$
Total Public Safety	\$ 504,900.00	\$ 461,037.10	\$ 43,862.90
Transportation:			
Other Operating Expenditures	\$	\$	\$
Total	\$	\$	\$

TOWN OF DOBSON, NORTH CAROLINA
GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Street Department:			
Salaries and Employment Benefits	\$ 50,100.00	\$ 44,216.25	\$ 5,883.75
Other Operating Expenditures	90,200.00	61,709.82	28,490.18
Capital Outlay			
Total	\$ 140,300.00	\$ 105,926.07	\$ 34,373.93
Total Transportation	\$ 140,300.00	\$ 105,926.07	\$ 34,373.93
Environmental Protection:			
Sanitation			
Contracted Services	\$ 95,000.00	\$ 81,834.71	\$ 13,165.29
Cultural and Recreational:			
Recreation:			
Other Operating Expenses	\$ 12,500.00	\$ 11,035.41	\$ 1,464.59
Other:			
Contribution to Regional Library	\$ 23,000.00	\$ 23,000.00	\$
Total Cultural and Recreational	\$ 35,500.00	\$ 34,035.41	\$ 1,464.59
Payment to Dobson Tourism Authority	110,000.00	99,741.82	10,258.18
Debt Service:			
Principal Retirement	\$ 26,500.00	\$ 21,611.99	\$ 4,888.01
Interest and Other Charges	6,500.00	10,877.80	(4,377.80)
Total Debt Service	\$ 33,000.00	\$ 32,489.79	\$ 510.21
Total Expenditures	\$ 1,233,098.00	\$ 1,127,962.81	\$ 105,135.19
Revenues Over (Under) Expenditures	\$	\$ 138,893.86	\$ 138,893.86
Other Financing Sources (Uses):			
Transfers to Water/Sewer Fund	\$	\$	\$
Sale of Capital Assets			
Total	\$	\$	\$
Fund Balance Appropriated			
Net Change in Fund Balance		\$ 138,893.86	138,893.86
Fund Balance, Beginning		1,196,657.09	
Fund Balance, Ending		\$ 1,335,550.95	

TOWN OF DOBSON, NORTH CAROLINA
WATER AND SEWER FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating Revenues:			
Water Sales and Sewer Charges	\$ 1,115,000.00	\$ 1,168,749.44	\$ 53,749.44
Water and Sewer Taps	5,000.00	4,050.00	(950.00)
Other Operating Revenues	83,325.00	97,282.44	13,957.44
Total Operating Revenues	\$ 1,203,325.00	\$ 1,270,081.88	\$ 66,756.88
Non-operating Revenues:			
Interest Earnings	\$ 3,350.00	\$ 1,389.59	\$ (1,960.41)
Tax Refunds	6,000.00	20,327.19	14,327.19
Total Non-operating Revenues	\$ 9,350.00	\$ 21,716.78	\$ 12,366.78
Total Revenues	\$ 1,212,675.00	\$ 1,291,798.66	\$ 79,123.66

TOWN OF DOBSON, NORTH CAROLINA
WATER AND SEWER FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Positive (Negative)
Expenditures			
Operating Expenditures:			
Salaries and Employee Benefits	\$ 412,675.00	\$ 359,909.42	\$ 52,765.58
Contracted Services	31,000.00	46,641.45	(15,641.45)
Utilities	110,000.00	115,616.95	(5,616.95)
Chemical Supplies	185,500.00	175,604.58	9,895.42
Other Operating Expenditures	256,500.00	267,564.77	(11,064.77)
Total Operating Expenditures	\$ 995,675.00	\$ 965,337.17	\$ 30,337.83
Debt Service:			
Interest and Other Charges	\$ 55,000.00	\$ 48,900.95	\$ 6,099.05
Principal Retirement	94,000.00	92,470.10	1,529.90
Total Debt Service	\$ 149,000.00	\$ 141,371.05	\$ 7,628.95
Capital Outlay:			
Equipment	\$ 68,000.00	\$ 107,067.76	\$ (39,067.76)
Total Capital Outlay	\$ 68,000.00	\$ 107,067.76	\$ (39,067.76)
Total Expenditures	\$ 1,212,675.00	\$ 1,213,775.98	\$ (1,100.98)
Revenues Over (Under) Expenditures	\$	\$ 78,022.68	\$ 78,022.68
Other Financing Sources (Uses)			
Operating transfers from General Fund			
Appropriated Fund Balance			
Total Other Financing Sources (Uses)			
Revenues and Other Sources Over/(Under) Expenditures and Other Uses		\$ 78,022.68	

TOWN OF DOBSON, NORTH CAROLINA
WATER AND SEWER FUND

SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012		
	Budget	Actual	Variance Positive Negative
Reconciliation from Budgetary Basis (Modified Accrual) To Full Accrual:			
Revenues and Other Sources Over/(Under) Expenditures and Other Uses		\$ 78,022.68	
Reconciling Items:			
Principal Retirement		92,470.10	
Depreciation		(220,557.92)	
Interest Expense from Capital Projects			
Capital Outlay and Improvements		107,067.76	
Increase in Accrued OPEB Liability		(48,102.79)	
Capital Contributions		20,225.35	
Interest Income from Water and Sewer Capital Projects Fund		16.63	
Total Reconciling Items		(48,880.87)	
Change in Net Assets		\$ 29,141.81	

TOWN OF DOBSON
WATER AND SEWER CAPITAL PROJECTS FUND

SCHEDULE OF REVENUES AND EXPENDITURES-BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Project Authorization	Actual Prior Years	Actual Current Year	Actual Total to Date	Variance Favorable (Unfavorable)
Revenues					
NC Rural Center	\$ 500,000.00	\$ 500,000.00	\$	\$ 500,000.00	\$
Surry County	275,000.00	254,740.34	20,225.35	274,965.69	(34.31)
Income - Gold Leaf					
Interest on Checking	14,000.00	727.77	16.63	744.40	(13,255.60)
Total Revenues	\$ 789,000.00	\$ 755,468.11	\$ 20,241.98	\$ 775,710.09	\$ (13,289.91)
Expenditures					
Construction Costs	\$ 1,444,000.00	\$ 1,432,967.88	\$ 20,225.35	\$ 1,453,193.23	\$ (9,193.23)
Eng./Arct. Fees	146,000.00	154,710.00		154,710.00	(8,710.00)
Professional Fees	25,000.00	29,063.62		29,063.62	(4,063.62)
Interest	35,000.00	52,338.35		52,338.35	(17,338.35)
Miscellaneous	50,000.00	8,924.15		8,924.15	41,075.85
Total Expenditures	\$ 1,700,000.00	\$ 1,678,004.00	\$ 20,225.35	\$ 1,698,229.35	\$ 1,770.65
Revenues Over (Under) Expenditures	\$ (911,000.00)	\$ (922,535.89)	\$ 16.63	\$ (922,519.26)	\$ (11,519.26)
Other Financing Sources (Uses)					
Transfers from other funds:					
From Water/Sewer Fund	\$	\$	\$	\$	\$
To Water/Sewer Fund					
USDA Loan Issued	911,000.00	911,000.00		911,000.00	
Net Financing Sources	\$ 911,000.00	\$ 911,000.00	\$	\$ 911,000.00	\$
Revenues and Other Financing Sources Over (Under) Expenditures	\$	\$ (11,535.89)	\$ 16.63	\$ (11,519.26)	\$ (11,519.26)

TOWN OF DOBSON, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Year</u>	Uncollected Balance <u>July 1, 2011</u>	<u>Added</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2012</u>
2011-2012	\$	\$ 497,778.76	\$ 488,826.96	\$ 8,951.80
2010-2011	7,740.70		4,044.69	3,696.01
2009-2010	2,114.92		733.49	1,381.43
2008-2009	4,559.62		490.39	4,069.23
2007-2008	2,025.98		285.43	1,740.55
2006-2007	724.86		22.12	702.74
2005-2006	836.96		0.00	836.96
2004-2005	712.97		13.19	699.78
2003-2004	972.98		0.00	972.98
2002-2003	1,500.01		1,500.01	0.00
	<u>\$ 21,189.00</u>	<u>\$ 497,778.76</u>	<u>\$ 495,916.28</u>	<u>\$ 23,051.48</u>
Less Allowance for Uncollectible Ad Valorem Taxes				<u>7,428.99</u>
Ad Valorem Taxes Receivable - Net				<u>\$ 15,622.49</u>
General Fund - Ad Valorem Taxes				\$ 487,256.93
Reconciling Items:				
Penalties and Interest Collected				(2,911.91)
Insolvents				2,752.04
Service Fees				7,319.21
Taxes Written Off				<u>1,500.01</u>
				<u>\$ 495,916.28</u>

TOWN OF DOBSON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Town - Wide</u>		<u>Total Levy</u>		
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy					
Property Taxed at Current Year's Rate	\$ 130,924,634.00	.38	\$ 497,513.61	\$ 460,052.67	\$ 37,460.94
Penalties			<u>169.00</u>	<u>169.00</u>	
Total	<u>\$ 130,924,634.00</u>		<u>\$ 497,682.61</u>	<u>\$ 460,221.67</u>	<u>\$ 37,460.94</u>
Discoveries:					
Current Year Taxes	\$ 186,550.00	.38	\$ 708.89	\$ 708.89	\$
Penalties					
Total	<u>\$ 186,550.00</u>		<u>\$ 708.89</u>	<u>\$ 708.89</u>	<u>\$</u>
Abatements:	<u>\$ (161,247.00)</u>	.38	<u>\$ (612.74)</u>	<u>\$ (612.74)</u>	<u>\$</u>
Total Property Valuation	<u>\$ 130,949,937.00</u>				
Net Levy			\$ 497,778.76	\$ 460,317.82	\$ 37,460.94
Uncollected Taxes at June 30, 2012			<u>(8,951.80)</u>	<u>(6,633.88)</u>	<u>(2,317.92)</u>
Current Year's Taxes Collected			<u>\$ 488,826.96</u>	<u>453,683.94</u>	<u>\$ 35,143.02</u>
Current Levy Collection Percentage			<u>98.20%</u>	<u>98.56%</u>	<u>93.81%</u>

TOWN OF DOBSON, NORTH CAROLINA
SCHEDULE OF NET ASSETS
WATER AND SEWER FUND BY FUNCTION
JUNE 30, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 526,236.70	\$ 131,559.18	\$ 657,795.88
Accounts receivable (net)	74,200.59	18,550.15	92,750.74
Due from other governments	58,656.00	14,664.00	73,320.00
Inventories	33,637.97	8,409.49	42,047.46
Restricted cash and cash equivalents	37,099.13		37,099.13
Total current assets	\$ 729,830.39	\$ 173,182.82	\$ 903,013.21
Non-current assets:			
Capital assets (Note I):			
Land, non-depreciable improvements, and construction in progress	\$ 1,340,127.97	\$ 335,031.99	\$ 1,675,159.96
Other capital assets, net of depreciation	3,105,343.68	776,335.92	3,881,679.60
Total capital assets	\$ 4,445,471.65	\$ 1,111,367.91	\$ 5,556,839.56
Total non-current assets	\$ 4,445,471.65	\$ 1,111,367.91	\$ 5,556,839.56
	\$ 5,175,302.04	\$ 1,284,550.73	\$ 6,459,852.77
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 39,318.51	\$ 9,829.63	\$ 49,148.14
Customer deposits	37,099.13		37,099.13
General obligation bonds payable-current	12,500.00		12,500.00
Notes payable-current	40,712.50	40,257.60	80,970.10
Total current liabilities	\$ 129,630.14	\$ 50,087.23	\$ 179,717.37
Noncurrent liabilities			
General obligation bonds payable-noncurrent (net)	\$ 185,000.00	\$	\$ 185,000.00
Note payable-noncurrent	1,123,125.00	\$ 120,772.80	1,243,897.80
Other post employment benefits	87,078.40	21,769.60	108,848.00
Total noncurrent liabilities	\$ 1,395,203.40	\$ 142,542.40	\$ 1,537,745.80
Total liabilities	\$ 1,524,833.54	\$ 192,629.63	\$ 1,717,463.17
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,084,134.15	\$ 950,337.51	\$ 4,034,471.66
Restricted for:			
Unrestricted	566,334.35	141,583.59	707,917.94
Total net assets	\$ 3,650,468.50	\$ 1,091,921.10	\$ 4,742,389.60

TOWN OF DOBSON, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER AND SEWER FUND BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 934,999.55	\$ 233,749.89	\$ 1,168,749.44
Water and sewer Taps	3,240.00	810.00	4,050.00
Other operating revenues	77,825.95	19,456.49	97,282.44
Total operating revenues	\$ 1,016,065.50	\$ 254,016.38	\$ 1,270,081.88
OPERATING EXPENSES			
Total operating expenses	\$ 810,751.97	\$ 202,687.99	\$ 1,013,439.96
Depreciation	176,446.34	44,111.58	220,557.92
Total operating expenses	\$ 987,198.30	\$ 246,799.58	\$ 1,233,997.88
Operating income (loss)	\$ 28,867.20	\$ 7,216.80	\$ 36,084.00
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 1,124.98	\$ 281.24	\$ 1,406.22
Tax refunds	16,261.75	4,065.44	20,327.19
Interest fees on long-term debt	(39,262.08)	(9,638.87)	(48,900.95)
Total non-operating revenues (expenses)	\$ (21,875.35)	\$ (5,292.19)	\$ (27,167.54)
Income (loss) before contributions and transfers	\$ 6,991.85	\$ 1,924.61	\$ 8,916.46
Capital contributions	20,225.35		20,225.35
Transfers from general fund			
Change in net assets	\$ 27,217.20	\$ 1,924.61	\$ 29,141.81
Total net assets, beginning	3,648,918.63	1,064,329.16	4,713,247.79
Total net assets, ending	\$ 3,676,135.83	\$ 1,066,253.77	\$ 4,742,389.60

TOWN OF DOBSON, NORTH CAROLINA
SCHEDULE OF CASH FLOWS
WATER AND SEWER FUND BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 939,740.51	\$ 234,935.13	\$ 1,174,675.64
Cash paid for goods and services	(442,002.70)	(110,500.68)	(552,503.38)
Cash paid to or on behalf of employees for services	(363,722.93)	(90,930.73)	(454,653.66)
Customer deposits received	5,775.93		5,775.93
Customer deposits returned	(8,428.05)		(8,428.05)
Other operating revenues	77,825.95	19,456.49	97,282.44
Net cash provided (used) by operating activities	\$ 209,188.71	\$ 52,960.21	\$ 262,148.92
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	\$	\$	\$
Transfers to other funds			
Due from other governments	14,120.00		14,120.00
Total cash flows from noncapital financing activities	\$ 14,120.00	\$	\$ 14,120.00
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	\$ (127,293.11)	\$	\$ (127,293.11)
Proceeds from capital debt			
Principal paid on bond maturities and notes	\$ (132,727.70)	40,257.60	(92,470.10)
Interest paid on bond maturities and notes	(38,851.67)	(10,049.28)	(48,900.95)
Capital contributions	20,225.35		20,225.35
Tax refunds	4,296.16	1,074.04	5,370.20
Net cash provided (used) by capital and related Financing activities	\$ (274,350.97)	\$ 31,282.36	\$ (243,068.61)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	\$ 1,124.98	\$ 281.24	\$ 1,406.22
Sale of property & equipment			
Total cash flows from investing activities	\$ 1,124.98	\$ 281.24	\$ 1,406.22
Net increase (decrease) in cash and cash equivalents	\$ (49,917.28)	\$ 84,523.81	\$ 34,606.53
Balance, beginning of the year	528,230.78	132,057.70	660,288.48
Balance, end of the year	\$ 478,313.50	\$ 216,581.51	\$ 694,895.01

TOWN OF DOBSON, NORTH CAROLINA
SCHEDULE OF CASH FLOWS
WATER AND SEWER FUND BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income	<u>28,867.20</u>	<u>7,216.80</u>	<u>36,084.00</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	\$ 176,446.34	\$ 44,111.58	\$ 220,557.92
Change in assets and liabilities:			
(Increase) Decrease in accounts receivable	1,500.96	375.24	1,876.20
(Increase) Decrease in inventories	(2,789.74)	(697.43)	(3,487.17)
(Increase) Decrease in prepaid items			
(Increase) Decrease in due from other governments	(42,800.40)	(10,700.10)	(53,500.50)
Increase (Decrease) in accounts payable and accrued liabilities	50,616.47	12,654.12	63,270.59
(Increase) Decrease in amounts payable related to equipment purchases			
Increase (Decrease) in due to other governments			
Increase (Decrease) in customer deposits	<u>(2,652.12)</u>	<u> </u>	<u>(2,652.12)</u>
Total adjustments	<u>\$ 180,321.51</u>	<u>\$ 45,743.41</u>	<u>\$ 226,064.92</u>
Net cash provided (used) by operating activities	<u>\$ 209,188.71</u>	<u>\$ 52,960.21</u>	<u>\$ 262,148.92</u>

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NORTH CAROLINA ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the Town of Dobson, North Carolina as of and for the year then ended June 30, 2012, which collectively comprises the Town of Dobson's basic financial statements, and have issued our report thereon dated October 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Dobson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2012-1 and 2012-2.

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

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



Jack L. Wilson, CPA, PLLC
Mount Airy, NC 27030
October 23, 2012

TOWN OF DOBSON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Financial Statement Findings and Responses

MATERIAL WEAKNESS

MATERIAL NONCOMPLIANCE

2012-1 Limited accounting knowledge by finance officer.

Criteria: Finance officer should have reasonable accounting knowledge in order to assure proper financial record keeping.

Condition: The finance department staff is competent, capable and performs daily and monthly functions, but their expertise is limited in the overall accounting procedure and financial statement preparation in accordance with generally accepted accounting principles with full accrual basis statements now required by GASB 34.

Effect: Transactions could be mishandled.

Cause: Lack of adequate accounting knowledge.

Recommendation: Finance officer and accounting personnel should obtain adequate accounting knowledge in order to perform their duties.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

2012-2 Excess of Expenditures over Appropriations.

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: Town of Jonesville expended \$39,068 more for capital outlay in the water/sewer fund than amount budgeted.

Effect: Moneys were spent that had not been appropriated.

Cause: The Town made expenditures that had not been budgeted for in the budget ordinance and budget amendments were not adopted.

Recommendation: Budget amendments should be adopted prior to expending funds.

Views of responsible officials and corrective actions: The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts.